

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019 AND 2018

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY

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INDEPENDENT AUDITOR REPORT

To the Shareholders and Directors of
Telefónica del Perú S.A.A.

February 11, 2020

We have audited the attached consolidated financial statements of **Telefónica del Perú S.A.A. and subsidiary**, which include the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, comprehensive income, changes in equity and of cash flows for the years ended on those dates, and the summary of significant accounting policies and other explanatory notes attached from 1 to 34.

Management's responsibility for consolidated financial statements

Management is responsible for the preparation and reasonable presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for the internal control that Management concludes is required to allow the preparation of financial statements that are free from material errors, whether due to fraud or error.

Auditor Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Our audits were performed in accordance with International Auditing Standards approved for application in Peru by the Board of Deans of the Public Accountant Colleges of Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material error.

An audit involves applying procedures to obtain audit evidence about the amounts and the information disclosed in the consolidated financial statements. The procedures that are selected depend on auditor judgment, which includes the assessment of the risk that the consolidated financial statements contain material errors, whether due to fraud or error. In carrying out these risk assessments, the auditor considers the internal control of the relevant entity for the preparation and reasonable presentation of the consolidated financial statements for the purpose of defining audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the entity. An audit also includes the evaluation of whether the accounting policies applied are appropriate and if the accounting estimates of management are reasonable, as well as the evaluation of the general presentation of the consolidated financial statements.

February 11, 2020
Telefónica del Perú S.A.A.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements indicated above, reasonably present, in all their significant aspects, the financial situation of **Telefónica del Perú S.A.A. and subsidiary** as at December 31, 2019 and 2018, and its financial performance and cash flows for years ended on the same dates, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Endorsed by:

----- (Partner)
Carlos González González
Certified Public Accountant
Registration No. 50403

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
ASSETS

		As at December 31	
	Note	2019	2018
		S/000	S/000
CURRENT ASSETS			
Cash and cash equivalents	6	1,015,924	88,724
Commercial accounts receivable, net	7	1,730,518	1,524,319
Contractual assets	9	129,295	267,299
Other accounts receivable from related entities	23(e)	26,746	372
Other accounts receivable, net	8	123,455	132,185
Inventories	10	306,835	312,182
Other non-financial assets	11	348,202	302,558
Income tax assets	24(f)	209,739	304,285
Total current assets		3,890,714	2,931,924
NON-CURRENT ASSETS			
Commercial accounts receivable	7	15,918	38,084
Contractual assets	9	6,110	17,867
Other accounts receivable from related entities	23(e)	587	587
Other accounts receivable, net	8	177,433	287,383
Investments in associated companies	12	267,318	7,738
Property, plant and equipment - net	13	6,187,142	6,729,637
Intangible assets other than goodwill (net)	14	2,078,047	2,276,029
Rights of use assets	15	1,057,095	-
Deferred tax assets, net	24	202,485	1,491
Goodwill	16	1,215,145	1,224,379
Other non-financial assets	11	310,703	279,273
Total non-current assets		11,517,983	10,862,468
TOTAL ASSETS		15,408,697	13,794,392

The accompanying notes from page 8 to 99 are part of the consolidated financial statements

LIABILITY AND EQUITY

		As at December 31	
	Note	2019	2018
		S/000	S/000
CURRENT LIABILITY			
Other financial liabilities	17	408,070	459,730
Financial lease liabilities	18	243,083	-
Commercial accounts payable	19	2,046,591	2,353,754
Contract liabilities	9	137,566	162,252
Other accounts payable	20	528,641	320,000
Other accounts payable to related entities	23(e)	2,991	384
Other provisions	21	362,967	2,133,551
Deferred income	22	48,996	52,649
Income tax liabilities	21 and 33	2,177,835	-
Total current liabilities		5,956,740	5,482,320
NON-CURRENT ASSETS			
Other financial liabilities	17	3,036,855	1,689,598
Financial lease liabilities	18	922,268	-
Contract liabilities	9	79,391	61,205
Other provisions	21	276,957	459,646
Other accounts payable	20	193,108	76,281
Other accounts payable to related entities	23(e)	1,938	3,390
Deferred income	22	99,611	125,321
Income tax liabilities	21 and 33	90,880	-
Total non-current liabilities		4,701,008	2,415,441
Total liabilities		10,657,748	7,897,761
EQUITY			
	25		
Issued capital		2,876,152	2,876,152
Issuance premiums		77,899	77,899
Other capital reserves		582,513	576,453
Accumulated results		1,216,795	2,368,477
Other equity reserves		(2,414)	(2,353)
Equity attributable to Company controllers		4,750,945	5,896,628
Non-controlling shares		4	3
Total equity		4,750,949	5,896,631
TOTAL EQUITY AND LIABILITIES		15,408,697	13,794,392

CONSOLIDATED INCOME STATEMENT

	Note	For the year ending on	
		December 31	
		2019	2018
		S/000	S/000
Income from ordinary activities			
Fixed business income	26	4,119,560	4,075,822
Mobile business income	27	3,760,220	4,026,315
Total income from ordinary activities		7,879,780	8,102,137
Operating Expenses			
General and administrative	28	(4,542,182)	(4,854,477)
Cost of equipment sales	10(b)	(1,296,617)	(1,356,498)
Depreciation	13(a)	(1,041,440)	(1,069,829)
Personnel	29	(1,057,330)	(815,555)
Amortisation	14(a)	(362,599)	(363,531)
Amortization of usage rights	15	(183,644)	-
Other operating income	30	332,242	119,039
Other operating expenses	30	(42,710)	(28,574)
Loss from operating activities		(314,500)	(267,288)
Other income (expenses)			
Financial income	31	55,894	37,976
Financial expenses	31	(317,345)	(192,140)
Net income from exchange differences	31	1,356	3,345
Share in results of associated company		(3,183)	5,515
Result before income tax		(577,778)	(412,592)
Income tax	24(c)	(559,379)	2,427
Fiscal year net loss		(1,137,157)	(410,165)
Attributable to:			
Shareholders of Telefónica del Perú SAA		(1,137,158)	(410,168)
Minority interest		1	3
Fiscal year net loss		(1,137,157)	(410,165)
Loss per basic and diluted share attributable to shareholders of Telefónica del Perú SAA (in soles)	32(b)	(0.340022)	(0.122644)
Weighted average number of outstanding shares (in thousands) attributable to shareholders of Telefónica del Perú SAA	32(b)	3,344,363	3,344,363

The accompanying notes from page 8 to 99 are part of the consolidated financial statements

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

	Note	For the year ending on December 31	
		2019 S/000	2018 S/000
Fiscal year net loss		(1,137,157)	(410,165)
Other comprehensive income items			
Valuation of hedging derivatives	25(d)	(86)	8,156
Effect on income tax	24(a)	25	(2,406)
Other comprehensive income		(61)	5,750
Total fiscal year comprehensive income, net of income tax		(1,137,218)	(404,415)
Attributable to:			
Shareholders of Telefónica del Perú SAA		(1,137,219)	(404,418)
Minority interest		1	3
Total fiscal year comprehensive income, net		(1,137,218)	(404,415)

The accompanying notes from page 8 to 99 are part of the consolidated financial statements

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FISCAL YEARS ENDING ON DECEMBER 31, 2019
AND 2018

	Attributable to shareholders of Telefónica del Perú S.A.A.						
	Capital issued	Premiums of issuance	Other reserves of capital, Note 25-c	Results accrued	Other reserves of equity, Note 25- d	Total	Shareholding s Non- controlling
	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Balances as at January 1, 2018	2,876,152	77,899	584,857	2,778,645	(8,103)	6,309,450	-
Fiscal year net loss	-	-	-	(410,168)	-	(410,168)	3
Other comprehensive fiscal year income	-	-	-	-	5,750	5,750	-
Share-based payment, note 2.26	-	-	(8,404)	-	-	(8,404)	-
Balances as of 31 December, 2018	2,876,152	77,899	576,453	2,368,477	(2,353)	5,896,628	3
Change in Accounting Policy note 2.30	-	-	-	(14,524)	-	(14,524)	-
Balances as at January 1, 2019	2,876,152	77,899	576,453	2,353,953	(2,353)	5,882,104	3
Fiscal year net loss	-	-	-	(1,137,158)	-	(1,137,158)	1
Other comprehensive fiscal year income	-	-	-	-	(61)	(61)	-
Expiration of dividends	-	-	6,060	-	-	6,060	-
Balances as at December 31, 2019	2,876,152	77,899	582,513	1,216,795	(2,414)	4,750,945	4

The accompanying notes from page 8 to 99 are part of the consolidated financial statements

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY
CONSOLIDATED CASH FLOW STATEMENT

	Note	For the year ending on	
		December 31	
		2019	2018
		S/000	S/000
Operating Activities			
Collections from customers and other		8,354,971	8,508,059
Collection of interests		16,816	8,807
Other cash collections related to operating activities		343,539	433,897
Less:			
Payments to suppliers of goods and services		(5,835,812)	(6,042,191)
Payment of remuneration and social security benefits		(838,397)	(795,494)
Payment from income tax		1,236	(114,735)
Interest payments		(196,485)	(134,435)
Other cash payments related to operating activities		(1,293,273)	(983,147)
Cash and cash equivalents from Operating Activities		552,595	880,761
Investment Activities			
Sale of property, plant and equipment		622,863	45,974
Reimbursement of advance payments of loans and loans granted to third parties		479,694	-
Loss of control of subsidiaries or other businesses		287	-
Sale of investment in associated company		-	-
Dividends received from related companies	20	6,001	5,621
Obtain control of subsidiaries or other businesses		(90)	-
Other cash collections (payments) relating to the investment activities		(476,010)	-
Purchase of property, plant and equipment and intangible assets	13 and 14	(1,394,278)	(1,503,615)
Cash and cash equivalents used in Investment activities		(761,533)	(1,452,020)
Financing activities			
Issuance of other financial liabilities	17	2,804,951	1,085,384
Dividends paid, net of withholdings		(47)	(257)
Amortization or payment of other financial liabilities		(1,668,463)	(863,031)
Cash and cash equivalents from financing activities		1,136,441	222,096
Net increase (decrease) in cash and cash equivalents		927,503	(349,163)
Net exchange differences		(303)	1,930
Balance of cash and cash equivalents at the beginning of fiscal year		88,724	435,957
Cash balance and cash equivalent at the end of fiscal year, note 6		1,015,924	88,724
Transactions that do not generate cash flow:			
Unrealized (loss) / profit from hedging operations		(85)	8,156
Purchases of fixed assets unpaid at the end of fiscal year		339,724	510,561
The accompanying notes from page 8 to 99 are part of the consolidated financial statements			

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY

NOTES ON CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2019 AND 2018

1 OVERVIEW

1.1 Constitution and economic activity -

Telefónica del Perú S.A.A. (hereinafter "the Company"), incorporated in Peru, is a telecommunications company subsidiary of Telefónica Latinoamérica Holding S.L. (a company incorporated in Spain) and belongs to the Telefónica de España Group (Telefónica S.A. is an entity registered with the Security and Exchange Commission of the United States of America), which provides services of mobile telephony, internet, fixed telephony, data transmission and information technology, national and international long distance carrier services, mobile satellite services and paid television services, among others throughout Peru. The Company is one of the main telecommunications operators in Peru and its activities are supervised by the Supervisory Agency of Private Investment in Telecommunications - OSIPTEL and by the Ministry of Transport and Communications - MTC. The registered fiscal address of the Company is Calle Dean Valdivia No. 148, San Isidro, Lima, Peru.

The subsidiary included in the consolidated financial statements as at December 31, 2019 and 2018, is as follows:

- Servicios Globales de Telecomunicaciones S.A.C. that is dedicated to the commercialization of services of public telephony to stores, convenience stores and similar establishments and, of which, the Company maintains a 99.90 percent market share.

The consolidated financial statements of Telefónica del Perú S.A.A. and its subsidiary (hereinafter the Group) include the following balances:

	Servicios Globales de Telecomunicaciones S.A.C.	
	<u>2019</u>	<u>2018</u>
	S/000	S/000
Assets	25,261	12,119
Liabilities	19,605	7,655
Net equity	5,656	4,464
Net income	1,192	2,715

1.2 Approval of consolidated financial statements -

The consolidated financial statements as at December 31, 2018, were approved by the General Shareholders' Meeting held on March 15, 2019. The consolidated financial statements for financial year 2019 were approved by Management. These consolidated financial statements for 2019 were approved by the Group Board of Directors on February 11, 2020 and will be submitted for approval to the General Meeting of Shareholders that will be made within the deadlines established by law. In Management's opinion, said consolidated financial statements will be approved without modifications.

1.3 Corporate reorganization -

a) Transfer of property block in favor of Internet Para Todos S.A.C. (Internet for All - IPT) -

On April 30, 2019, the Company purchased 100 percent of the shares of IPT (a company in pre-operational stage), for S/ 42,000. On the same date and after the purchase, the Company General Shareholders Meeting approved the simple reorganization in favor of IPT effective May 1, 2019, contributing the rural mobile infrastructure assets and liabilities necessary for IPT to operate. The equity block contributed on May 1, 2019, was comprised as follows:

	May 1, 2019
	S/000
Assets	
Accounts receivable from staff	2
Inventory.	678
Property, plant and equipment note 13	252,538
Rights of use assets, note 15.	11,533
Deferred tax, note 24 (a)	<u>12,273</u>
Total assets	<u>277,024</u>
Liabilities	
Accounts payable to staff	182
Financial lease liabilities	8,118
Provision for withdrawal of assets	<u>3,104</u>
Total liabilities	<u>11,404</u>
Contributed capital block	<u><u>265,620</u></u>

Additionally, in the same agreement it was decided to make a complementary non-monetary contribution of S/ 1,022,000, based on an appraisal and independent report, see note 12(c).

b) Merger with Subsidiaries Telefónica Multimedia S.A.C. and Star Global Com S.A.C.-

On February 1, 2018, the Company merged with two of its Subsidiaries in order to meet the demands of a highly competitive and dynamic market. The aforementioned mergers were made between companies under common control and have not meant an effective change in the control of the Subsidiaries and have not had any effect on the presentation of the consolidated financial statements.

1.4 Concession contracts and prices -

a) Concession contracts

The Group, together with the Peruvian Government represented by the Ministry of Transportation and Communications (MTC), has entered into Concession Contracts for the provision of the following services: (i) Local carrier and telephone services in the department of Lima and the Constitutional Province of Callao and (ii) national and international local and long distance carrier and telephone services in the Republic of Peru. These contracts, whose nature is that of Contracts-Law, were approved by Supreme Decree No. 11-94-TCC on May 13, 1994, subsequently amended by Supreme Decree No. 21-98-MTC on August 4, 1998 and by the Ministerial Resolutions No. 272-99-MTC/15.03, No. 157-2001-MTC/15.03, No.140-2009-MTC/03 and No.527-2009-MTC/03. The latter was modified by Ministerial Resolution No. 724-2009-MTC/03.

As of December 31, 2019, and 2018, the following concession contracts are in force:

<u>Services</u>	<u>Location</u>	<u>Ministerial Resolution</u>	<u>Term</u>	<u>Start</u>	<u>Expiration</u>
Landline and LD	Lima, Callao and Provinces	272-99-MTC /15.03	20 years + renewed term	1994	2027
Moviles	Lima and Callao	373-91-TC / 15.17	20 years + renewed term	1991	2030
Mobile	Provinces	055-92-TC / 15.17	20 years + renewed term	1992	2030
Moviles	Lima and Callao	440-91-TC / 15.17	20 years + renewed term	1991	2030
Mobile	Provinces	250-98-MTC / 15.03	20 years	1998	2018 (*)
4G LTE	Lima and Provinces	616-2013-MTC / 03	20 years	2013	2033
700 Band	Lima and Provinces	529-2016-MTC / 01.03	20 years	2016	2036

(*) In process of renewal with the MTC.

As a guarantee of faithful compliance with the obligations established in some of the concession agreements, the Group has extended guarantees for US\$65,470,000 up to a term of approximately 10 years by means of current guarantee letters with various banking entities. These guarantee letters must be kept current for the period of the concession contract.

As at the date of the consolidated financial statements, the Group Management estimates that the investment projects undertaken to meet the commitments assumed are being executed as scheduled.

b) Prices -

The prices for the local and long-distance fixed telephony service are adjusted quarterly based on service baskets according to a formula of price caps, established on the basis of the combination of inflation and a factor of productivity. According to the Concession Contracts, the value of the productivity factor should be reviewed every three years.

OSIPTEL sets the productivity factor to be applied in three-year periods, specifying that it would be implemented in four price adjustment procedures each year. For three of these procedures it was determined that the Productivity Factor will be inflation (no rate adjustments will be made). For the remaining procedure, it shall be determined that a verification procedure should be carried out, taking as reference an annual Productivity Factor. For the period September 2016 to August 2019, the annual Productivity Factor was set at -3.40 percent. If inflation was to be in the range of between -2.40 percent and -4.40 percent, the Group shall not make tariff adjustments. If inflation is outside of that range, the Group will make the respective rate adjustments. For the period September 2019 to August 2022, the annual Productivity Factor was set at -2.43 percent. If inflation was in the range of between -1.43 percent and -3.43 percent, the Group shall not make tariff adjustments.

With the entry into force of the Virtual Mobile Area (a single national cell area), as of September 4, 2010, all domestic long-distance calls with a mobile destination, including those originating from public telephones for public use, have been eliminated and for which only local prices apply.

Furthermore, Resolution No. 021-2015-CD/OSIPTEL approved the value of the ceiling rate applicable to calls from public telephones of the Group to personal communications and trunked mobile telephony networks. It was established that said rate is to be reviewed after four years; thereby annulling adjustments, periodic (annual adjustment mechanism) and non-periodic (when there are changes in the values of any of the interconnection charges that comprise said rate), which until now are applicable to this rate.

The rate in force since March 2015 is S/ 0.20 for 29 seconds, including the General Sales Tax in accordance with the provisions of Resolution 021-2015-CD/OSIPTEL, issued on March 12, 2015.

Furthermore, by means of Resolution No. 044-2011-CD/OSIPTEL, OSIPTEL approved a new price system, the establishment of the prices for local landline-mobile calls corresponds to the concessionary companies of the Landline Telephony Service. By means of Resolution No. 160-2011-CD/OSIPTEL, an adjustment of the fixed-mobile rate is made every time adjustments are made to any of the charges that constitute that rate. The rate is as follows, not including general sales tax:

<u>Date</u>	<u>Resolution</u>	<u>Rate / seconds</u>
06/22/2017	075-2017-CD / OSIPTEL	S/ 0.0017 x sec.
03/14/2018	065-2018-CD / OSIPTL	S/ 0.0009 x sec.
02/09/2019	008-2019-CD / OSIPTEL	S/ 0.0006 x sec.

2 SUMMARY OF MAIN ACCOUNTING POLICIES

The main accounting principles and practices that have been applied in the recording of operations and the preparation of the accompanying consolidated financial statements are the following:

2.1 Basis for preparation -

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (hereinafter "IASB") and effective as at December 31, 2019 and 2018, respectively.

The information contained in these consolidated financial statements is the responsibility of the Group Management, which expressly states that the principles and criteria included in the International Financial Reporting Standards (IFRS) issued by the IASB have been fully applied and that the same were in force on the dates of the consolidated financial statements.

These consolidated financial statements have been prepared based on historical cost, based on the accounting records maintained by the Group, except for derivative financial instruments measured at fair value. The accompanying consolidated financial statements are presented in Soles (PEN) (functional and presentation currency) and all values have been rounded up to thousands, except when otherwise indicated.

The preparation of the consolidated financial statements, in accordance with IFRS, requires the use of certain critical accounting estimates. It also requires that Management exercises its critical judgment in the process of applying Group accounting policies. The areas that involve a greater degree of critical judgment or complexity, or those in which the assumptions and estimates are significant for the separate financial statements, are described in Note 4.

2.2 Consolidation -

The consolidated financial statements include the Group's financial statements as of December 31, 2019 and 2018.

a) Subsidiary

The subsidiary is the entity over which the Group has control. Control is achieved when the Group is exposed, or has the rights, to the variable returns from its involvement in the investee company and can influence those returns through its power over it. Subsidiaries are consolidated from the date on which their control is transferred to the Group, and they cease to consolidate from the date on which the control ceases.

Transactions, balances and unrealized gains with the subsidiary are eliminated. Profits or losses resulting from transactions between related parties that are recognized in any asset item are also eliminated. The accounting policies of the subsidiary, if necessary, have been modified to ensure uniformity with the policies adopted by the Group.

2.3 New standards, modifications and interpretations -

a) New standards and amendments to standards and interpretations adopted by the Group in 2019 -

The accounting policies adopted are consistent with those applied in previous years, except that the Group has adopted the new IFRS and revised IAS that are mandatory for periods beginning on or after January 1, 2019. The adoption of these standards had a moderate effect on the financial position and results; however, it has not been necessary to modify the consolidated financial statements given the transition/adoption method employed by the Group.

The nature and impact of these standards and interpretations are described below:

- **IFRS 16: Leases -**

IFRS 16 will mainly affect the accounting of lessees and will result in the recognition of almost all leases in the consolidated financial position statement. The standard eliminates the difference formulated by IAS 17 between operating and financial leases and requires the recognition of an asset (the right to use the leased asset) and a financial liability to pay rents for virtually all lease contracts. There is an optional exception for short-term and low-value leases.

The consolidated income statement will also be affected because the total expense is usually higher in the first years of a lease and lower in subsequent years. In addition, operating expenses will be replaced by interest and depreciation, so key metrics such as EBITDA will change.

The operating cash flows will be higher, since the cash payments for the principal portion of the lease liability are classified within the financing activities.

Only the part of the payments that reflects the interest can continue to be presented as operating cash flows.

The accounts of the lessors will not change significantly.

The Group applied the standard using a modified retroactive approach.

As a result of the application of the new concepts proposed by IFRS 16, the initial effect was recorded in equity and the current internal processes were modified. See note 2.30.

- **IFRIC 23: Uncertainty regarding income tax treatments -**

IFRIC 23 clarifies the recognition and measurement requirements of IAS 12, 'Income Tax', in cases where there is uncertainty about any tax position assumed by the entity in determining income tax. Previously, the interpretations committee had clarified that accounting for uncertain tax positions associated with income tax should be treated under IAS 12 and not under IAS 37, "Provisions, contingent liabilities and contingent assets".

IFRIC 23 establishes the form of recognition and measurement of deferred and current tax assets and liabilities in cases where an entity has uncertain tax positions associated with income tax. An uncertain tax position is any tax treatment applied by an entity for which there is uncertainty about whether it will be accepted by the tax authority. IFRIC 23 covers all aspects that may be affected by the existence of uncertain tax positions, insofar that it could affect the determination of the tax profit or loss, the tax base of assets and liabilities, tax credits or the tax rates used.

The Company concluded that the adoption of this interpretation did not have significant impacts on the consolidated financial statements of previous years, nor of the current year, as, because of the uncertain tax positions, the Company had been recognizing the effect of these using the most likely amount method. However, it has meant a reclassification of the provisions already recognized as income tax liabilities in the short and long term when these uncertainties are expected to be resolved and their respective liability is settled, see note 2.29 (b).

- Other effective modifications that are mandatory in 2019 and that are not relevant to the Group's activities -
 - Amendments to IAS 28 "Investments in associates and joint ventures".
 - Modification to IFRS 9, "Financial instruments" for instruments that give the possibility of early payment.
 - Annual improvements to IFRS, Cycle 2015 - 2017 - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.
 - IAS 19, "Employee Benefits", modification, reduction and liquidation of a plan.

These amendments are effective for periods beginning on or after January 1, 2019; however, the standard has not had an impact on the consolidated financial statements.

b) New rules and interpretations that have not been adopted in advance -

The Group has decided not to adopt in advance the following standards and interpretations that were issued by the IASB, and that are not effective as at December 31, 2019:

- IFRS 17, "Insurance contracts".
- Modifications to the Conceptual Framework.
- Modifications to IAS 1 and IAS 8.
- Modifications to IFRS 3.

These amendments are effective for periods beginning on January 1, 2020 and IFRS 17, effective as of January 1, 2021.

2.4 Operating Segments -

An operating segment is a group of assets and operations that provide goods or services, and that is subject to significant risks and returns other than the risks and returns of other business segments. A geographical segment is characterized by providing goods or services within a particular economic environment that is subject to risks and returns different from those segments that operate in other economic environments. The Group is organized into a single operational segment for the provision of telecommunications services located in a single geographic segment (Peru), as the Group makes strategic commercial, financial, purchasing and investment decisions oriented towards the customer, and that are furthermore focused on a convergent offer (several aggregated telecommunications services). Thus, it is not applicable to present information on a segment basis.

2.5 Translation of foreign currency -

The Group has determined that its functional and presentation currency is the Sol (PEN). Transactions in foreign currency are those made in a currency other than the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are subsequently adjusted to the functional currency using the exchange rate in effect on the date of the consolidated statement of financial position.

Profits or losses from exchange differences resulting from the settlement of such transactions and from the conversion of monetary assets and liabilities in foreign currency at the exchange rates on the date of the consolidated statement of financial position, are recognized in the section "Net exchange difference Profit/(Loss)", in the consolidated income statement, except for those exchange differences in foreign currency transactions with cash flow hedges, which are directly recorded in the equity up to the disposal of the same, at which time it is recognized in the consolidated income statement. Non-monetary assets and liabilities determined in foreign currency are converted to the functional currency at the prevailing exchange rate on the date of the transaction.

2.6 Business combinations between entities under common control -

Business combinations between entities under common control are recorded by the method of interest unification.

In accordance with the interest unification method, the items in the financial statements of the merging companies, both for the period in which the merger occurs and for the other periods presented in comparative form, are included in the Group's consolidated financial statements as if they had been merged since the beginning of the oldest period that is presented.

As a unification of interests produces a single merged entity, it must adopt uniform accounting policies. Therefore, the merged entity recognizes the assets, liabilities and assets of the merging companies at their book values, adjusted to the concepts required to standardize the accounting policies and apply them to all the periods presented. No surplus value is recognized in this process. Likewise, the effects of all transactions between merging companies are eliminated when preparing the consolidated financial statements of the merged entity.

2.7 Cash and cash equivalents -

For purposes of the consolidated statement of cash flows, cash and cash equivalents correspond to cash, current accounts and deposits with less than three months from the date of opening, all of which are recorded in the consolidated statement of financial position. These accounts are not subject to a significant risk of changes in their value.

For purposes of the consolidated statement of cash flows, cash and cash equivalents include the items described in the previous paragraph, net of bank overdrafts.

2.8 Financial assets -

(i) Classification -

The Group classifies its financial assets in the following categories:

- Measured at fair value (whether through results or other comprehensive income), and
- Measured at amortized cost.

The classification depends on the business model that the entity uses to manage its financial assets and the contractual terms that impact the cash flows.

For assets measured at fair value, gains and losses will be recorded in the consolidated statement of income or in the consolidated statement of comprehensive income. For investments in equity instruments that are not held for trading, their measurement will depend on whether the Group irrevocably chooses, at the time of initial recognition, to recognize these equity instruments at fair value through other comprehensive income.

The Group makes reclassifications of its debt instruments if its business model for the management of these assets' changes.

(ii) Recognition and derecognition -

Acquisitions and sales of financial assets are recognized on the trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments expire or are transferred and the Group has materially transferred all the risks and benefits derived from their ownership.

(iii) Measurement -

Upon initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial assets that are not carried at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. The transaction costs of financial assets carried at fair value through results are recognized in results.

Financial assets that incorporate embedded derivatives are evaluated comprehensively for purposes of determining if their cash flows only represent payment of principal and interest.

Debt instruments -

The subsequent measurement of debt instruments depends on the business model that the Group has established for asset management, as well as the characteristics of asset flows derived from the asset. There are three possible categories in which to classify debt instruments, these are:

- Amortized cost: Applicable to assets whose business model is to collect contractual cash flows, provided that these cash flows only represent capital and interest payments. The interest generated by these financial assets is recognized as financial income using the effective interest method. Any profit or loss arising from the derecognition of this type of financial asset is recognized in profit or loss. Impairment losses are presented in a separate line item in the consolidated income statement.

Fair value through other comprehensive income (FVOCI): Applicable to assets whose business model is mixed; that is, they are maintained both to collect their contractual flows and to obtain cash flows from their sale, provided that the asset cash flows only represent capital and interest payments. Changes in the book value of these financial assets are recognized in other comprehensive income (OCI), except for losses (or reversal of losses) due to impairment, interest and profits or losses due to exchange differences, which are recognized in profit or loss. When the financial asset is derecognized, the accumulated profit or loss recognized in the consolidated comprehensive result statement is reclassified from equity to income and presented under the item "other income (expenses)". The interest generated by these financial assets is recognized as financial income using the effective interest method. Profits or losses on exchange differences are recognized in the consolidated statement of income under the heading 'Net gain/(loss) due to exchange differences, while the impairment losses are also recognized in the consolidated statement of income and presented as a separate line item.

- Fair value through Profit and Loss (FVTPL): Assets that do not meet the conditions to use amortized cost or FVOCI are measured at fair value through profit or loss. Changes in the fair value of debt instruments in this category are recognized as profit or loss in the consolidated income statement and presented net in the item "Other expenses (income)" in the period in which the change occurs.

Equity instruments -

After initial recognition, the Group measures the equity instruments at their fair value. Changes (profits or losses) in the fair value of equity instruments held for the purpose of trading are recognized in FVTPL. For other equity instruments, the Group has an irrevocable option to designate them on initial recognition in the FVTPL category or present changes in fair value as part of the OCI.

If the Group opts for the designation of FVTPL, when the asset is derecognized, it is not possible to reclassify to profit or loss any profits or losses accumulated in OCI. Dividends generated by these investments are recognized in the consolidated income statement since the Group has the contractual right to receive them, and they are presented under "Other income (expenses)". Losses (or reversals of losses) due to impairment of equity instruments measured at FVTPL are not presented separately from the other changes at fair value.

(iv) Impairment -

Looking to the future, the Group evaluates the expected credit losses associated with debt instruments measured at amortized cost and at FVTPL. The methodology applied to determine the impairment depends on whether the credit risk of an asset has experienced a significant increase.

For commercial accounts receivable, the Group applies the simplified approach permitted by IFRS 9, which requires estimating the credit loss of the account for the total duration of the instrument and recognizing it from its initial recording.

2.9 Derivative financial instruments and hedge accounting -

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each period of the consolidated financial statements. The accounting for subsequent changes at fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives such as:

- hedges of the fair value of recognized assets or liabilities, or a firm commitment (fair value hedges),
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities, and highly probable forecasted transactions (cash flow hedges).

At the beginning of the hedge relationship, the Group documents the economic relationship between the hedging instruments and the hedged items, even if it is expected that the changes in the cash flows of the hedging instruments will offset the changes in the cash flows of the hedged items. The Group documents its objective and risk management strategy to carry out its hedging operations.

The total fair value of a hedging derivative is classified as non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months, and as current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The Group uses derivative financial instruments (exchange rate forwards and currency swaps) to manage its exposure to the risk associated with fluctuations in the foreign currency. In order to manage the aforementioned particular risk, the Group applies hedge accounting for transactions that meet the requirements for this. Derivative financial instruments are recognized at fair market value on the date on which they are signed and subsequently adjusted, and are recorded as assets when their value is positive, and as a liability when the value is negative.

(i) Cash flow hedges that qualify for hedge accounting:

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in the other equity reserve account. The profit or loss relating to the ineffective portion is recognized immediately in the consolidated income statement.

In the event that forward contracts are used to hedge expected future transactions, the Group only generally designates the changes in the fair value of the contract related to the spot component as the hedging instrument. Profits and losses related to the effective portion of changes in the spot component of forward contracts are recognized in the other equity reserve account. The changes in the element of the forward contract that relates to the hedged item ('aligned forward element') is recognized as part of other comprehensive income as reserve costs for hedges in equity. In certain cases, the Group may designate the entire change in the fair value of the forward contract (including forward points) as a hedging instrument. In such cases, the profits or losses related to the effective portion of the change in the fair value of the entire forward contract are recognized in the other equity reserve account.

The amounts accumulated in the equity are reclassified to results in the periods in which the hedged items affect results, as follows:

- If the hedged item subsequently results in the recognition of a non-financial asset (for example, inventories), both the deferred hedged profits and losses and the deferred time value of option contracts or forward contracts, if any, are included as part of the initial cost of assets. Deferred amounts are finally recognized in income, as the hedged item also affects the results (for example, with the sale of inventories).
- Profits or losses related to the effective portion of interest rate swap contracts that cover variable rate loans are recognized in income under "Financial expenses" at the same time as the interest on hedged loan is recognized.

However, if a projected hedged transaction results in the recognition of a non-financial asset (for example, inventories or property, plant and equipment), any previously deferred equity profits or losses are transferred from equity and included in the initial measurement of the cost of the non-financial asset. Deferred amounts are finally recognized in profit or loss through the cost of sale in the case of inventories, or depreciation, in the case of property, plant and equipment.

When a hedging instrument expires, is sold, terminated or when a hedge fails to meet the criteria for applying hedge accounting, any accumulated equity profit or loss or any deferred hedge cost on equity until that time shall remain in equity until the expected transaction occurs, which will result in the recognition of a non-financial asset, such as inventories. When a forecasted transaction is not expected to occur, the accumulated profit or loss and any deferred hedging costs that were reported in equity are immediately transferred to the consolidated income statement.

(ii) Derivatives that do not qualify for hedge accounting:

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the consolidated income statement.

As of December 31, 2019, and 2018, the Group had forwards operations contracted to cover the exchange rate risk in the purchase of assets associated with the disbursement of projects.

2.10 Inventories -

Inventories are presented at cost or net realizable value, whichever is lowest, and are presented net of the impairment estimate.

Inventories correspond mainly to terminal equipment and are valued at average cost. The cost includes the reclassification of the equity of any profit or loss in the hedges of qualified cash flows related to the purchases of raw material but excludes the costs of loans. In case there is a subsidy on the sale price of the terminals, it will not be included in the cost of the inventories given that it pertains to cost of commercialization, because it is always associated with the customer signing-up or with the renewal of the client contract period. As such, terminal equipment is recorded in the profit or loss when they are delivered for sale to the final customers (signal activation). See note 2.24. Inventories in transit are presented at the specific cost of acquisition.

The estimate for impairment is determined based on an analysis of the conditions and rotation of terminal equipment, materials and supplies. In the case of damaged equipment and that which have no movement in the last year, the estimate is equivalent to balance in books and recorded in the fiscal year results, and in which its requirement is determined.

2.11 Properties, plant and equipment -

Property, plant and equipment are presented at cost, net of accumulated depreciation and accumulated loss due to impairment of the value of these assets. See note 2.14. The initial cost of the property, plant and equipment includes its acquisition price, including non-refundable import duties and taxes, and any directly attributable cost to locate and leave the asset in working condition.

The cost of the asset also includes the present value of the disbursements that are expected to be required to pay any cost of decommissioning and removal of equipment or rehabilitation of the physical site where it is established, when they constitute obligations incurred under certain conditions (see note 2.20). The cost may also include equity transfers of any profit or loss in the hedges of cash flows qualified for purchases of property, plant and equipment in foreign currency. Note 2.20 includes additional information on the recorded decommissioning provision. For significant components of property, plant and equipment that must be periodically replaced, the Group recognizes such components as separate individual assets, with their specific useful lives and respective depreciations. In the same way, when a large inspection or repair is carried out, its cost is recognized as a replacement in the carrying amount for property, plant and equipment, if the criteria for recognition are met.

Depreciation is calculated using the straight-line method, using the following estimated useful lives:

<u>Description</u>	<u>Years</u>
Buildings and other buildings	13, 15, 33 and 40
Plant (Platform and telecommunications networks)	3 to 20
Sets and others	3 to 10
Furniture and fixtures	5 and 10

Land plots do not depreciate. The residual values, the useful life and the depreciation method are reviewed every year to ensure that they are consistent with the expected pattern of economic benefits of the items of property, plant and equipment. The telecommunications sector in which the Group operates is very dynamic. Likewise, the constant overall progress of the same for the development of new technology, forces the Group to continually update and renovate its plant in order to be competitive in the market. Based on the historical information and considering the technological advances, it has been determined that the value of the properties, plant and equipment at the end of its useful life is not significant and therefore the Group estimates that they do not have residual values, depreciating the total cost in the useful life of the same.

A component of property, plant and equipment or any significant part of it initially recognized is written off at the time of its sale or when it is not expected to obtain future economic benefits by means of its use or sale. Any profit or loss at the time of asset derecognition (calculated as the difference between the net income from the sale of the asset and its carrying amount) is included in the consolidated income statement when the asset is derecognized.

Disbursements incurred after property, plant and equipment have been put into use are capitalized as an additional cost of this asset when it is probable that such disbursements will result in future economic benefits higher than the normal yield originally evaluated for said asset. Disbursements for maintenance and repairs are recognized as an expense for the year in which they are incurred.

Employee benefit costs that are directly related to the construction of the plant are capitalized as part of the cost of the assets, through the recording of a lower expense in the consolidated statement of income, in the item "Personnel expenses".

Works in progress is recorded at cost, which includes the cost of construction, plant and equipment and other direct costs; as well as the cost of important materials directly identifiable with specific assets. Works in progress do not depreciate until the respective assets are finished and are ready for use.

2.12 Intangible assets and administrative concessions -

Intangible assets are initially recorded at cost. An asset is recognized as intangible if the attributable future economic benefits that it generates are likely to flow to the Group, and its cost can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment loss. See note 2.14.

Intangible assets generated internally, which are directly attributable to the design and testing of identifiable and unique software that the Group controls, are recognized as intangible assets when they meet the following criteria:

- It is Technically possible to complete the software so that it can be used,
- Management intends to finish the software and use or sell it,
- There is the opportunity to use or sell the software,

- It can be shown that the program will generate future economic benefits,
- The required technical, financial and other resources are available to complete the development of the software, thus permitting its use or sale.

During the initial recognition the Group evaluates whether the useful life of the intangible assets is defined or undefined.

Intangible assets are amortized as per the straight-line method, based on the following estimated useful lives, when they are ready for use:

<u>Description</u>	<u>Years</u>
Administrative concessions	According to the term of the concessions (note 1.4 (a))
Software	3 to 5

The period and the amortization method are reviewed periodically. Depreciation begins when the asset is available for use. Changes in the expected useful life or in the expected consumption pattern of the future economic benefits materializing in the asset are taken into consideration in order to change the amortization period or method, if applicable, and are treated as a change in accounting estimation.

The loss or derecognition of an intangible asset is determined as the difference between the net amount obtained from its disposal and the book value of the asset and is recognized in the consolidated income statement when the asset is derecognized.

2.13 Goodwill -

Represents the excess of the cost of acquisition of companies over the Group's share in the fair value of the respective net assets acquired. Capital gain is presented at cost less accumulated permanent impairment losses on its value. See note 2.14. The losses are determined based on impairment tests carried out by the Group during the last quarter of each year in order to determine whether the book value is fully recoverable.

2.14 Impairment of long-term assets -

The net book value of the property, plant and equipment and intangible assets of finite life are reviewed to determine if there is no impairment. Each year, the Group assesses the existence of signs of possible impairment of non-current assets. If there are such indications, the Group estimates the recoverable value of the asset, which is the higher of fair value, less costs to sell, and the value in use. Said value in use is determined by discounting the estimated future cash flows. When the recoverable value of an asset is below its net book value, it is considered that there is a deterioration in value.

The assessment on capital gain impairment is made during the last quarter of the year. The Cash Generating Unit (CGU) is aligned with the definition of the business segment. See note 2.4. Impairment is determined by the evaluation of the recoverable value; considering that when said value is less than its book value, an impairment loss is recognized. Impairment losses related to capital gain cannot be reversed in future periods.

The recoverable value of an asset is defined as the highest amount between the net sale price and its value in use. The net sale price is the amount that can be obtained selling an asset in a free market, while the value in use is the present value of the net future cash flows. Value in use is estimated from the continuous use of an asset and its disposal at the end of its useful life. In determining the value in use, future net cash flows are discounted to their present value using a pre-tax discount rate that reflects the assessment of current market conditions, the value of money over time, and the specific risks of the asset. The discount rates are adjusted for the country risk and corresponding business risk.

As of December 31, 2019, and 2018, the pre-tax discount rate used was 12.17 percent and 13.46 percent, respectively (equivalent to after-tax rates of 8.58 percent and 9.49 percent, respectively).

When new events or changes in existing circumstances take place and that demonstrate an impairment loss recorded in an earlier period may have disappeared or been reduced, the Group undertakes a new estimate of the profitability of the corresponding asset. This evaluation is done in each financial year. Previously recognized impairment losses are reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset from the date on which the impairment loss was last recognized. If this is the case, the book value of the asset is increased to its recoverable amount. This increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, if an impairment loss had not been recognized for the asset in previous years. This reversal is recognized in the consolidated income statement for the year. After the reversal, the depreciation charge is adjusted in future periods by distributing the book value of the asset over its remaining useful life. See note 16 for further information.

2.15 Investments in associated companies -

An associate is an entity over which the Group has significant influence. An entity is presumed to exercise significant influence if it directly or indirectly owns 25 percent or more of the voting power of the investee, unless it can be clearly demonstrated that such influence does not exist. Conversely, it is presumed that the entity does not exercise significant influence if it directly or indirectly holds less than 25 percent of the voting power of the investee, unless it can be clearly demonstrated that such influence exists. Substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

Significant influence is manifested through one or more of the following manners:

- i) Representation on the board of directors or equivalent governing body of the investee;
- ii) participation in policy-setting processes, including participation in decisions on dividends and other distributions;
- iii) relatively significant transactions between the entity and its investee;
- iv) exchange of managerial personnel; or
- v) provision of essential technical information.

The investment in associates is presented using the equity method (equity share). According to this method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share in the net assets of its associates from the date of acquisition.

2.16 Trade accounts payable and other accounts payable -

These amounts represent liabilities for unpaid goods and services provided to the Group at the close of the consolidated statement of financial position. The amounts are not guaranteed and are generally paid within 60 days after the recognition. Commercial accounts and other accounts payable are presented as current and non-current liabilities. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Financial Obligations -

Financial obligations are initially recognized at their fair value, net of transaction costs incurred. Financial obligations are subsequently measured at amortized cost. Any difference between income (net of transaction costs) and the amount of reimbursement is recognized in the consolidated income statement during the period of financial obligations using the effective interest method. Paid fees are recognized as transaction costs of financial obligations insofar as it is probable that part or all of the facility will be withdrawn. In this case, the rate is postponed until the withdrawal occurs. To the extent that there is no evidence that part or all the facility is likely to be withdrawn, the rate is capitalized as a prepayment for liquidity services and amortized over the period of the facility with which it relates.

Financial obligations are eliminated from the consolidated statement of financial position when the obligation specified in the contract is derecognized, canceled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including the non-transferred assets or assumed liabilities, is recognized in the consolidated income statement as other financial income or expenses.

Financial obligations are classified as current and non-current liabilities.

2.18 Financing costs -

The financing costs directly attributable to the acquisition, construction or production of an eligible asset that necessarily presents a considerable period of preparation to be available for use or sale are capitalized as part of the cost of the respective asset.

All additional financing costs are recognized as an expense in the period in which they occur. The financing costs are constituted by interest and other costs that the entity incurs in connection with the financed funds.

According to the Group's policy, the qualified assets considered for the purpose of capitalizing financing costs are those whose preparation period exceeds eighteen months.

As at December 31, 2019 and 2018, the Group did not have assets in progress qualified for the purpose of capitalizing financing costs.

2.19 Employee benefits -

The Group has short-term obligations for employee benefits that include salaries, social contributions, gratuities, performance bonuses and profit sharing (corresponding to 10 percent of taxable income). These obligations are recorded monthly, charged to the consolidated income statement as they accrue.

Gratuities

The Group recognizes a liability and an expense for gratuities paid to workers as per the legal provisions in force in Peru. The gratuities correspond to two (2) annual remunerations paid in July and December of each year.

Compensation for time of service

The compensation for time of service of the Group's personnel corresponds to their compensation rights calculated in accordance with the legislation in force, which must be deposited in the bank accounts designated by the workers in the months of May and November of each year. The staff compensation for time of service is equivalent to half the monthly remuneration in force on the date of deposit. The Group has no additional payment obligations once it makes the annual deposits of the funds to which the worker is entitled.

Vacations

Staff annual leave and other paid absences are recognized on an accrual basis. The provision for the estimated obligation for annual leave of the personnel, which is calculated based on a monthly salary for every twelve (12)

months of services rendered by the employees, is recognized on the date of the consolidated statement of financial position.

The Group does not provide benefits after the employment relationship.

2.20 Provisions -

General -

A provision is recognized only when the Group has a current obligation (legal or implicit) as a result of a past event, it is probable that resources will be required to meet the obligation and, its amount can be reasonably estimated. Provisions are reviewed during each period and adjusted to reflect the best estimate on the date of the statement of financial position. When the effect of the money value over time is significant, the amount of the provision is discounted using a pre-tax interest rate that reflects, when appropriate, the specific risks of the liability. When discounted, the increase in the provision due to the passage of time is recorded in the consolidated income statement as a financial cost.

The amount recorded as a provision is the best estimate, at the closing date, of the disbursement necessary to meet the present obligation. This best estimate will be the amount, valued in a rational manner, that the Group will have to pay to meet the obligation on the date of the consolidated statement of financial position, or to transfer it to a third party on the same date.

The estimates for every single outcome and financial effect are determined by the Group's judgement, and supplemented by experience gained in similar transactions and, in some cases, reports from experts. The evidence to be considered includes any additional data provided by events after the closing of the consolidated statement of financial position.

When the Group expects a part of or the total provision to be recovered, said recoveries are recognized as assets, provided that the recovery is certain. The provisioned amount is presented in the consolidated income statement, net of the recoveries.

Decommissioning -

The Group records the present value of the estimated costs of the legal and implicit obligations required to pay the costs of decommissioning and removal of equipment or the rehabilitation of the physical site where it is established in the period in which the obligation is incurred. Decommissioning costs are presented at the present value of the expected costs to settle the obligation, using estimated cash flows, and are recognized as an integral part of asset costs (see note 2.11). Cash flows are discounted at the pre-tax risk-free market rate that reflects the specific risks of the decommissioning liability. The accrual of the discount is recorded as an expense as it is incurred and is recognized in the consolidated income statement as a financial cost. The estimated future decommissioning costs are reviewed annually and adjusted, as appropriate, on an annual basis. Changes in estimated future costs or in the applied discount rate are added to or deducted from the cost of the related asset, as appropriate.

Contingencies -

Possible contingencies are not recognized in the consolidated financial statements. These are disclosed in notes on the consolidated financial statements, except if the possibility of disbursing an economic flow is remote.

Restructuring -

An implicit obligation is recognized as a consequence of restructuring, only when a formal and detailed plan exists to proceed with it. This plan must at a minimum identify the business activities, or the part of them involved; the main locations affected; the location, function and approximate number of employees that will be compensated; the disbursements that will be carried out; and the dates on which the plan will be implemented. In addition to what is detailed in the plan, there must be a valid prospect among those affected, either by having begun to implement the plan or by announcing its main features to them.

2.21 Income tax -

Current Income tax -

Current assets and liabilities, short and long term, for the income tax for the period are measured using the amounts expected to be recovered from or paid to the tax authority and includes the effect of tax reparations pending resolution of periods prior to the time of settling the current tax. The tax rates and tax regulations used to compute these amounts are those that are approved, at the closing date of the period in Peru, where the Group operates and generates taxable income.

The current income tax that is related to items that are directly recognized in net equity is also recognized in net equity and not in the consolidated income statement. Management periodically evaluates the positions taken in the tax returns regarding situations in which the applicable tax regulations are subject to interpretation and constitutes provisions when deemed appropriate.

Deferred income tax -

Deferred income tax is recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the closing date of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability stems from the initial recognition of goodwill or of an asset or liability in a transaction other than a business combination and, at the time of the transaction, it affects neither the accounting result nor the tax result.
- Regarding taxable temporary differences related to investments in subsidiaries, associates and joint ventures, when the time of reversal of the temporary difference can be controlled and it is likely that this difference will not be reversed in the foreseeable future.

The deferred tax asset is recognized for deductible temporary differences, unused tax losses, and unused tax credits, to the extent that it is probable that profit subject to taxation will be available against which deductible temporary differences can be used, with the following exceptions: (a) the deferred tax asset that emanates from the initial recognition of a different asset / liability in a business combination, which,

at the time of the transaction, affects neither the accounting profit nor the taxable profit; and (b) deferred tax assets that emanate from temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures are recognized only to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable utility will be available against which the difference can be used.

The Group evaluates a deferred tax asset in combination with other deferred tax assets and liabilities. When tax legislation restricts the use of tax losses, the Group will value a deferred tax asset in combination with other deferred tax assets and liabilities of the same type.

The carrying amount of deferred income tax assets is reviewed on each closing date of the reporting period and reduced to the extent that the existence of future taxable profits is no longer probable to allow the deferred income tax assets to be used either in whole or in part. Unrecognized deferred tax assets are revalued at each closing date of the reporting period and are recognized to the extent that the existence of future available taxable income that make it possible to recover the same deferred tax assets that were previously unrecognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the year in which the asset is realized or the liability is paid, based on the tax rates and tax rules that were approved on the date of the close of the reporting period.

Deferred income tax related to items outside the profit or loss is also recognized outside of this. These items are recognized in correlation with the underlying transactions with which they are related, either in other comprehensive income or directly in net equity.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities, and if the deferred taxes relate to the same tax authority and the same tax jurisdiction.

2.22 Government Grants -

Government grants are non-reimbursable financing from the public sector in the form of transfers of resources, in exchange for future or past compliance with certain conditions related to operating activities with social impact.

Government grants are recognized when there is reasonable assurance that the Group will meet the conditions for their use and will receive the grants. These grants are recorded as income from the periods required to systematically relate them to the costs to which they are allocated. The amount to be charged to results is maintained as a liability in the item "Deferred income" until it is charged to income. In the case of assets acquired as part of the respective project, these are part of the Group's fixed assets and depreciated in a manner consistent with the policy established for other similar assets. The income related to the grant is recognized in the consolidated income statement, as per the depreciation of the assets.

2.23 Issued capital -

Common shares are classified in equity.

2.24 Recognition of income, costs and expenses -

The Group's revenues come mainly from the provision of the following telecommunication services: traffic, connection and installation fees, periodic fees for the use of the network, interconnection and rental of networks and equipment, as well as for the provision of internet and paid television services. The products and services can be sold separately or jointly in commercial packages.

Traffic -

Traffic revenues are based on the initial call set-up fee, plus per-call rates, which vary according to the time consumed by the user, the distance of the call and the type of service. Traffic is recorded as income as it is consumed. In the case of prepaid, the amount corresponding to the traffic paid pending consumption generates a contractual liability.

Prepaid traffic usually has expiration periods of up to twelve months. Based on historical consumption the Group estimates traffic that will not be consumed and is imputed to the consolidated income statement based on traffic consumed.

Periodic fees for network use -

In the case of traffic sales, as well as other services, via a fixed rate for a certain period of time (flat rate), the income is recognized on a straight-line basis in the period of time covered by the rate paid by the customer.

Connection and installation fees -

Revenue from connection and installation fees originated when customers connect to the Group's network is deferred and imputed to the income statement over the estimated average period of duration of the relationship with the customer or the term of the contract, whether or not a material right is granted, respectively, which varies depending on the type of service in question. The related costs, except those related to the network expansion, are recognized in the consolidated income statement in the estimated average life of the relationship with the customer.

Leases of equipment and other services are recognized in the consolidated income statement as they are consumed.

Income from interconnection -

Interconnection revenues derived from customer calls from other operators, as well as from other services used by customers, are recognized in the period in which they make such calls.

Sale of equipment -

Revenue from the sale of goods (terminal equipment) is recognized when the signal from the sets is activated and transferred to the final customer.

Bundled services -

In the case of revenues from the sale of multi-elements, sets plus telephony services, internet and paid television, the revenues are allocated based on the fair value of the components delivered. The offers of commercial packages that combine different elements, are analyzed periodically to determine the necessity to separate the different identified elements, applying in each case the criterion of appropriate income recognition.

Revenue from the sale of modems and decoders, being essential elements for service provision, is respectively recognized as an Internet and television service throughout the duration of the contract. While revenues from the sale of landlines, being elements that can be used independently of contracting the service, are recognized when the set is transferred to the final customer and the signal is activated. Fixed telephony, internet and television services are recognized on a straight-line basis for the duration of the contract.

To the extent that bundles are sold at a discount on equipment (mainly in mobile telephony) and that there is a contract that generates explicit or implicit permanence, the criteria defined in IFRS 15 will apply. The application of the criteria defined in IFRS 15 represents an increase in revenue recognized for sales of equipment, which will generally be recognized coinciding with the moment of delivery to the customer, to the detriment of the periodic income for the provision of services in subsequent periods. The income is assigned proportionally to each element according to the independent sale prices of each individual component, always maintaining the total income value. The difference between the revenue from sales of sets and terminals and the amount received from the customer at the start of the contract is shown as a contractual asset in the consolidated statement of financial position, which will be recovered over the term of the contract with the customer.

The costs that are finally activated, will be amortized in a systematic and consistent manner with the transfer to the client of the goods or services with which the associated asset is related. Said asset may be amortized over the duration of the contract or average life of the client.

Other income, costs and expenses -

Other income, costs and expenses are recognized as they accrue, regardless of when they are undertaken, and are recorded in the periods with which they are related.

2.25 Leases -

The determination of whether a contract is or contains a lease is based on the substance of the contract; that is, whether the fulfillment of the contract depends on the use of a specific asset or whether the contract grants a right to use the asset, even if that right is not explicitly stated in the contract.

The Group as lessee -

As of January 1, 2019, the standard requires the landlord to recognize all leases in a separate statement of financial position, thus reflecting the right to use the asset for a period, as well as the liabilities associated with contractual payments.

At the commencement of a contract, the Group will evaluate whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period in exchange for a consideration.

As explained in note 2.3, the Group has changed its accounting policy for leases in which the Group is the lessee, the new policy and the impact are described in note 2.30.

Until December 31, 2018, the Group classified its leases in the following manner:

A lease is defined on the commencement date as a finance lease or an operating lease. The leases, which effectively and substantially transfer all the risks and benefits inherent to the ownership of the leased assets to the Group and / or whose term covers most of the economic life of the asset, were classified as financial leases and are accounted for in a similar manner to the acquisition of a property, plant and equipment, recognizing it at the commencement of the respective contracts, recording the corresponding assets and liabilities for an amount equal to the fair value of the assets under lease or, if lower, at the present value of the minimum payments of the lease. Initial direct costs are considered as part of the asset.

The Group maintained leases, which correspond mainly to rentals of infrastructure, spaces and circuits.

The lease payments are distributed between the financial burden and the reduction of the liability, in such a way that a constant interest rate can be obtained for the remaining balance of the liability. The financial burden is distributed over the periods of validity of the lease agreements. Capitalized leased assets were depreciated over the period of the useful life of the asset, as explained in section 2.11. However, if there is no reasonable certainty

that the Group will obtain ownership at the end of the lease period, the asset is amortized over the shorter period between the useful life of the leased asset and the lease term.

Payments for operating leases are recorded lineally as expenses in the consolidated income statement over the period of the lease.

The profit, if any, from the financial transactions of a leaseback contract was deferred and is applied to results, in the periods of contract validity.

The Group as lessor -

Leases in which the Group substantially retains all the risks and benefits inherent to the ownership of the leased assets were classified as operating leases. The initial direct costs incurred in negotiating and contracting the operating lease are added to the book value of the leased asset and are recorded throughout the lease period whilst applying the same criteria as for rental income. Contingent income is recorded as income in the period in which it was obtained in the consolidated income statement.

2.26 Share-based payment transactions -

Group employees receive part of their compensation as per share-based payment plans, and according to which said employees provide services and receive equity instruments as consideration. In situations in which equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or that will be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable good or service received on the concession date. This amount is then capitalized or charged to expenses, as appropriate.

2.27 Distribution of dividends -

The distribution of dividends to the Group's shareholders is recognized as a liability in the consolidated financial position statement in the period in which the dividends are approved by the Group's shareholders.

2.28 Loss per share -

Basic and diluted losses per share have been calculated based on the weighted average of the common shares outstanding as at the date of the consolidated financial position statement. As of December 31, 2019, and 2018, the Group does not maintain financial instruments that produce dilutive effects, so the loss per basic and diluted share is the same.

2.29 Fair value measurements -

The Group measures some of its financial instruments, such as accounts receivable from related entities, investments and other financial liabilities, at fair value on each date of the consolidated financial position statement. Likewise, the fair value of financial instruments measured at amortized cost is disclosed in note 3.3.

Fair value is the price that would be received for selling an asset or that would be paid when transferring a liability in an orderly transaction between participants in a market at the measurement date. The measurement at fair value assumes that the transaction to sell the asset or transfer the liability takes place, either:

- In the main market for the asset or liability, or
- In the absence of a main market, in the most advantageous market for the asset or liability.

The Group must be able to access the main or the most advantageous market. Also, the fair value of a liability reflects its risk of default.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered active if the transactions for the asset or liability are carried out frequently and sufficient volume to provide price information on an ongoing basis.

All assets and liabilities for which fair values are determined or disclosed in the consolidated financial statements are classified within the fair value hierarchy described below, based on the lowest level of the data used, that are significant for the measurement at fair value as a whole:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level of information is significant for measurement at fair value is directly or indirectly observable.
- Level 3: Valuation techniques by which the lowest level of information is significant for measurement at fair value is not observable.

For assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis, the Group determines whether there have been transfers between the different levels within the hierarchy by reviewing the categorization at the end of each reporting period.

Group Management determines policies and procedures for recurring and non-recurring fair value measurements. At each reporting date, Management analyzes the movements in the values of the assets and liabilities that must be valued in accordance with the Group's accounting policies.

For purposes of fair value disclosures, the Group has determined the classes of assets and liabilities based on their nature, characteristics and risks, and the hierarchy level of fair value, as explained above.

2.30 Changes in accounting policies -

a) Implementation of International Financial Reporting Standard 16:

In accordance with the provisions of note 2.3, IFRS 16 entered into force in 2019. The Group applied the standard in a modified retrospective manner. The initial application date is January 1, 2019. The Group has recognized a right-of-use asset and a significant financial liability arising from operating leases that under the previous accounting rules were recognized as operating expenses over the term of the contract.

	Note	First impact IFRS 16 application S/000
Rights of use	15	
Rights-of-use land and natural assets		411,937
Rights-of-use Construction		473,766
Rights-of-use technical facilities and machinery		106,630
Other rights of use		<u>37,444</u>
		1,029,777
Less:		
Property, plant and equipment under lease		
Financial under IAS 17	13	(28,234)
Rentals, leases paid in advance	11	(<u>110,838</u>)
Impact on assets		<u>890,705</u>
Lease debt	18	
Non-current lease debts		663,707
Current debts for lease		<u>242,053</u>
		905,760
Less:		
Liabilities for financial leasing under IAS 17		(<u>531</u>)
Impact on liabilities		<u>905,229</u>
Net impact on equity reserves for the first application		(<u>14,524</u>)

IFRS 16 establishes that companies that act as lessees must recognize in the statement of financial position the assets and liabilities derived from all the lease agreements (except for short-term lease agreements and those for assets of low value).

The Group maintains a significant volume of lease agreements as the lessee of various assets, mainly: towers, office and store buildings and land where own towers are located. Until December 31, 2018, pursuant to IAS 17, a significant portion of these contracts was classified as operating leases, with the corresponding payments generally recorded on a straight-line basis over the term of the contract.

The Group implemented IFRS 16, which is highly complex due to factors such as the high number of contracts affected, and the diversity of data source systems, as well as the need to make certain estimates. These include the estimation of the term of the lease, based on the non-cancelable period, and the periods covered by the renewal options whose exercise is discretionary for the Group and is considered reasonably certain. The foregoing will depend to a large extent on the facts and specific circumstances corresponding to asset class in the telecommunications sector (technology, regulation, competence, business model, among others). Likewise, hypotheses are used to calculate the discount rate, which will depend mainly on the incremental financing rate for the estimated terms. Additionally, the Group opted not to separately record the non-lease components from those that are leased for those asset classes in which the relative importance of the non-leases is not significant insofar as the total value of the lease.

The Group adopted the standard using the modified retrospective method, and therefore recognized the cumulative effect of the initial application of the new criteria as an adjustment to accumulated results in the first year of adoption of IFRS 16. Furthermore, the Group opted for a practical solution that allows it not to have to re-evaluate whether a contract is, or contains, a lease on the date of initial adoption of IFRS 16, but to directly apply the new requirements to all those

contracts that under the previous rule that were identified as lease. Moreover, the new standard allows for certain practical solutions at the time of first application that relate to the valuation of the asset, discount rate, impairment, leases that end within the following twelve months after the first application, initial direct costs, and duration of the lease. In this regard, the Group has chosen to apply the following practical solutions in the transition to the new criteria:

- Valuation of right-of-use assets: for the vast majority of contracts, the Group opted to value the right-of-use asset for an amount equivalent to the lease liability on the transition date, adjusted for any advance payments recognized in the separate statement of financial position at the moment immediately prior to the first application.
- Discount rate: The Group used common discount rates for groups of contracts with similar characteristics insofar as term, contract asset, currency and economic environment.
- Contracts that expire in 2019: The Group chose to apply a practical solution that allows it not to adopt the new criteria for contracts that expire during the first 12 months of application of the new standard.
- Initial direct costs: The Group excluded any initial direct costs of the initial asset valuation by means of right of use on the date of first application.
- In 2019, this meant lower expenses for rentals included in the heading "General and Administrative Expenses" (S/ 208,690,000), lower profit for disposal of assets (S/ 156,029,000) after having leased part of the assets sold, as well as greater amortization for the right of use (S/ 183,644,000), higher interest expense (S/ 40,744,000), and higher gain in exchange for liabilities in dollars for leases (S/ 6,089,000).

Furthermore, as of the entry into force of the new criteria, the amortization of the right-to-use assets and the recognition of interest on the lease obligation replaced a significant part of the amount recognized in the income statement as operating lease expenses as per IAS 17. Likewise, the classification of lease payments in the consolidated cash flow statement was affected by the entry into force of IFRS 16.

Regarding the payments assigned for rentals reflected in the consolidated financial statements (note 33 (a)), the Group estimates that the main differences insofar as the valuation of the new lease liability referred to, among others:

- Differences in the considered contract population: the lease liability does not include short-term leases or those that have low-value assets or intangibles, which are included in the expected payment schedule. Additionally, payments related to cancellable contracts without cancellation cost do not count towards the amount of payments committed for rentals, but they are included in the lease liability.
- Differences in lease terms: the extension options that are considered reasonably certain are part of the valuation of the lease liability but are not considered in the expected schedule of payments for operating leases.
- Differences in the discount rate: to the extent that there are differences in terms, the discount rates used are different due to differences.

b) Implementation of the Interpretation of International Financial Reporting Standards - 23

In accordance with the provisions of note 2.2, IFRIC 23 entered into force in 2019. The Company applied the retrospectively modified Interpretation. The initial application date was January 1, 2019. The Company has reclassified other income tax payable provisions from this item; tax related matters pending resolution from previous periods as follows:

	Note	First impact <u>IFRIC 23 adoption</u> S/000
Other provisions	21	
Litigation and risks		2,483,079
IFRIC 23 Adoption		(2,097,690)
		385,389
Income tax liabilities	21	<u>2,097,690</u>

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors -

The Group's main financial liabilities, other than derivatives, include commercial and miscellaneous accounts payable, lease liabilities, accounts payable to related parties and financial obligations. The main purpose of these financial obligations is to finance the Group's operations. The Group has cash and short-term deposits, commercial and miscellaneous receivables and accounts receivable from any related that arise directly from its operations. The Group also has cash flow hedging instruments.

Due to the nature of its activities, the Group is exposed to credit, exchange rate, interest rate and liquidity risks, which are managed through a process of identification, measurement and continuous monitoring, subject to risk limits and other controls.

This process of risk management is critical for the Group's ongoing profitability and each person within the Group is responsible for the risk exposures related to their responsibilities.

The independent process of risk control does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

(a) Risk management structure -

The risk management structure is based on the Board of Directors and the Group Management, which are responsible for identifying and controlling risks in coordination with other areas as explained below:

i) Directory -

The Board is responsible for the general approach to risk management. The Board of Directors provides the principles for risk management, as well as the policies prepared for specific areas, such as exchange rate risk, interest rate risk, credit risk and the use of derivative financial instruments.

ii) Finance -

The Finance area is responsible for managing the flow of Group funds, taking into account the policies, procedures and limits established by both the Board of Directors and Group Management, including the follow-up of said procedures to improve the Group's risk management.

iii) Internal Audit -

The Internal Audit area of the Group is responsible for supervising the operation and reliability of the internal control systems and the administrative and accounting information. Likewise, it is responsible for supervising the financial information and significant events presented by the Group.

The risk management processes in the Group are monitored by Internal Audit, which analyzes both the adequacy of the procedures and compliance with them. Internal Audit discusses the results of its evaluations with General Management and reports its findings and recommendations to the Group's Board of Directors.

(b) Risk mitigation -

As part of the total risk management, the Group constantly evaluates the different scenarios and identifies different strategies to manage exposures resulting from changes in interest rates, foreign currency, capital risk and credit risks.

The Group's risk management is controlled by Corporate Finance as per the policies approved by Management. The Group's Finance area identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board of Directors provides the principles for general risk management, as well as policies that hedge specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, financial instruments, and the investment of excess liquidity.

Credit risk -

Credit risk is the risk that a counterparty does not comply with its obligations stipulated in a financial instrument or contract, thus causing a loss. The Group is exposed to credit risk due to its operating activities, mainly in terms of its accounts receivable and financial activities, including its deposits in banks and transactions with derivatives, and other financial instruments.

Credit risk arises from cash and cash equivalents, contractual cash flows from equity investments accounted for at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss, favorable derivative financial instruments and deposits in banks and financial institutions, as well as credit exposures to wholesale and retail customers, including any outstanding accounts receivable.

The Group maintains exposure limits of its placements in the different banks and financial institutions, according to the institutions' individual risk category. Credit risk is managed as a group. For banks and financial institutions, we only accept entities independently qualified with a minimum grade of "A".

Credit risk is controlled through the evaluation and analysis of individual transactions, for which an evaluation is made based on the aging of accounts receivable. If the wholesale customers have an independent rating, these ratings are used. Otherwise, if there is no independent rating, the monitoring of the credit risk assesses the credit quality of the client, with its financial position, past experience and other factors being taken into account. Individual risk limits are established based on internal or external ratings in accordance with the limits established by Management. Compliance with credit limits by wholesale customers is regularly supervised by line management, which is used to determine the estimate required for uncollectibility. Additionally, partial and total service suspensions are applied to users who have accounts receivable due in accordance with the policy described in note 2.8 (iv); and Management defines the delinquency objectives.

According to the analysis made by the Group's Management, an account receivable is considered as impaired when it has been classified as an uncollectible account (see note 2.8). In addition, Management estimates a provision for expected losses on non-impaired accounts. As at the date of the consolidated financial position statement, the aging and qualification of the commercial accounts receivable balance is as follows:

	<u>Not Impaired</u>	<u>Impaired</u>	<u>Total</u>
	<u>S/ 000</u>	<u>S/ 000</u>	<u>S/ 000</u>
As at December 31, 2019			
Not matured	924,422	22,872	947,294
Matured			
Up to 1 month	388,276	64,126	452,402
From 1 to 3 months	222,799	101,794	324,593
From 3 to 6 months	120,120	135,528	255,648
From 6 to 12 months	90,819	279,124	369,943
More than 12 months	-	3,962,073	3,962,073
Total	<u>1,746,436</u>	<u>4,565,517</u>	<u>6,311,953</u>
As at December 31, 2018			
Not expired	933,222	22,626	955,848
Matured:			
- Up to 1 month	307,659	52,969	360,628
- From 1 to 3 months	204,587	63,235	267,822
- From 3 to 6 months	78,972	84,639	163,611
- From 6 to 12 months	37,963	227,746	265,709
- More than 12 months	-	3,527,524	3,527,524
Total	<u>1,562,403</u>	<u>3,978,739</u>	<u>5,541,142</u>

Consequently, according to Management's opinion, there are no significant concentrations of credit risk as of December 31, 2019 and 2018.

As at December 31, 2019, the Group's Management estimated that the maximum net amount of credit risk to which the Group is exposed amounts to approximately S/ 2,052,472,000 (S/ 2,131,901,000 as at December 31, 2018), which represents the net book value of accounts receivable and other financial assets.

Market risk -

Market risk is the risk of losses in balance sheet positions, mainly derived from movements in the exchange rate and interest rates.

Sensitivity analyzes in the following sections refer to positions for the years ended December 31, 2019 and 2018. Likewise, they are based on the fact that the net amount of debt, the ratio of fixed interest rates, and the position of instruments in foreign currency remain constant. The sensitivities in the consolidated profit or loss statement is the effect of the changes assumed in the respective market risk. This is based on the financial assets and liabilities held as at December 31, 2019 and 2018, including the effect of hedging derivatives.

i) Exchange rate risk

The exchange rate risk is the risk that the fair value of the future cash flows of a financial instrument fluctuates due to variations in the exchange rates. The Finance Management is responsible for identifying, measuring, controlling and reporting the exposure to the Group's global exchange risk. The exchange risk arises when the Group presents mismatches between its active and passive positions in the different currencies in which it operates, which are mainly soles (functional currency) and US dollars. Management monitors this risk through the analysis of the country's macro-economic variables.

Transactions in foreign currency are carried out at the free market exchange rates published by the Superintendence of Banking, Insurance and Private Pension Fund Administrators. As at December 31, 2019, the weighted average free market exchange rates for transactions in US dollars were S/ 3,311 per US \$1 purchasing and S/ 3,317 for US \$1 selling (S/ 3,369 per US \$1 purchasing and S/ 3,379 for US \$ 1 selling at December 31, 2018) and for transactions in Euros, the rates were S/ 3,652 for € 1 purchasing and S/ 3,877 for € 1 selling (S/ 3,695 for € 1 purchasing and S/ 4,150 for € 1 selling as at December 31, 2018), respectively.

The result of maintaining balances in foreign currency for the Group for the years 2019 and 2018, was a net gain of approximately S/ 1,356,000 and S/ 3,345,000, respectively, which are presented under the heading "Net exchange differences" of the consolidated income statement, see note 31.

As at December 31, 2019 and 2018, the Group had the following assets and liabilities denominated in foreign currency:

	2019		2018	
	US\$000	EUR000	US\$000	EUR000
Assets -				
Cash and cash equivalent	-	447	-	3,594
Trade accounts receivable, net	123,790	4,553	92,662	1,615
Other accounts receivable, net	<u>32,482</u>	<u>-</u>	<u>36,486</u>	<u>-</u>
	<u>156,272</u>	<u>5,000</u>	<u>129,148</u>	<u>5,209</u>
Liabilities -				
Bank overdraft	(1,768)	-	(6,372)	-
Other financial liabilities	-	-	(865)	-
Financial liability for lease	(86,437)	-	-	-
Trade accounts payable	(263,998)	(18,677)	(322,750)	(23,810)
Other accounts payable	<u>(37,359)</u>	<u>-</u>	<u>(38,008)</u>	<u>-</u>
	<u>(389,562)</u>	<u>(18,677)</u>	<u>(367,995)</u>	<u>(23,810)</u>
Purchase position of derivatives (reference value)	<u>295,201</u>	<u>10,000</u>	<u>233,301</u>	<u>21,507</u>
Monetary position, net	<u>61,911</u>	<u>(3,677)</u>	<u>(5,546)</u>	<u>2,906</u>

The Group hedges its exposure to the conversion to Soles of financial obligations and OPEX operations (denominated in US dollars and euros), through the use of hedge cash flow and swaps contracts.

The following table shows the sensitivity analysis of US dollars (the main currency other than the functional currency in which the Group has a significant exposure), in its monetary assets and liabilities, and its estimated cash flows and in euros. The analysis determines the effect of a reasonably possible change in the exchange rate of the US dollar and the euro, while keeping the other variables constant in the consolidated income statement, before income tax. A negative amount shows a potential net loss, while a positive amount reflects a potential net gain in the consolidated statement of income.

<u>Sensitivity analysis</u>	<u>Change in Exchange rates</u> %	<u>Effect on results before Consolidate taxes</u>	
		<u>2019</u>	<u>2018</u>
Devaluation -			
Dollars		5 10,249	(937)
Dollars		10 20,499	(1,874)
Revaluation -			
Dollars	5	(10,249)	937
Dollars	10	(20,499)	1,874
Devaluation -			
Euros	5	(713)	537
Euros	10	(1,426)	1,074
Revaluation -			
Euros	5	713	(537)
Euros	10	1,426	(1,074)

The exchange rate sensitivities shown in the previous table are illustrative only and are based on simplified scenarios. However, this effect does not include the actions that would be taken by Management to mitigate the impact of this risk.

(b) Interest rate risk -

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. The Group manages its interest rate risk based on the experience of Management, balancing the asset and liability interest rates.

Management believes that future fluctuations in interest rates will not significantly affect the results of the Group's future operations.

The information related to financial instruments with fixed and variable interest rates are shown as follows:

	<u>Variable rate (*)</u> S/000	<u>Fixed rate</u> S/000	<u>Interest-free</u> S/000	<u>Total</u> S/000	<u>Average interest rate</u> %
As at December 2019					
Finance Assets					
Cash and Cash Equivalents	1,015,924	-	-	1,015,924	2.25
Commercial accounts receivable, net	-	822,014	924,422	1,746,436	2.23
Contractual assets	-	-	135,405	135,405	-
Other accounts receivable from related entities	-	-	27,333	27,333	-
Other accounts receivable, net	-	-	180,621	180,621	-
Financial Liabilities					
Otros pasivos financieros	737,403	2,694,596	12,926	3,444,925	6.25
Financial lease liabilities	-	1,165,351	-	1,165,351	3.50
Commercial accounts payable	-	-	2,046,591	2,046,591	-
Other accounts payable to related entities	-	-	4,929	4,929	-
Other accounts payable	-	-	219,949	219,949	-

	<u>Variable rate (*) S/000</u>	<u>Fixed rate S/000</u>	<u>Interest-free S/000</u>	<u>Total S/000</u>	<u>Average interest rate %</u>
As at December 31, 2018					
Financial assets					
Cash and cash equivalents	88,724	-	-	88,724	2.90
Trade accounts receivable, net	-	629,181	933,222	1,562,403	2.47
Contractual assets	-	-	285,166	285,166	-
Other accounts receivable from related entities	-	-	959	959	-
Other accounts receivable, net	-	-	155,133	155,133	-
Financial Liabilities					
Other financial liabilities	441,136	1,708,306	-	2,149,442	4.94
Commercial accounts payable	-	-	2,353,754	2,353,754	-
Other accounts payable to related entities	-	-	3,774	3,774	-
Other accounts payable	-	-	159,945	159,945	-

(*) Variables are considered as assets and obligations at a variable-based rate, as well as fixed-rate assets and obligations for terms of less than 12 months.

Shown below is the consolidated income statement's sensitivity, which is due to the possible effect of changes in the interest rate on financial expenses for the period, before income tax, assuming that the financial liabilities on December 31, 2019 and 2018 will be renewed at the end and will be maintained for the remainder of the following year:

Changes in basic points	<u>Effect on profit or loss consolidated before tax</u>	
	<u>2019</u>	<u>2018</u>
	<u>S/000</u>	<u>S/000</u>
+(-) 50		+(-)1,393
+(-) 100		+(-)2,785
+(-) 200		+(-)5,570
		(-)+1,762
		(-)+3,524
		(-)+7,048

The exchange rate sensitivities shown in the previous table are illustrative only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in the net financial expense based on the projected scenarios of the yield curve and the interest rate risk profile that the Group currently has. However, this effect does not include the actions that would be taken by Management to mitigate the impact of this risk.

iii) Liquidity risk -

The liquidity risk is the risk that the Group cannot meet its payment obligations related to financial liabilities at maturity and replace the funds when they are withdrawn. The consequence would be the failure to pay the company's obligations to third parties.

Liquidity is controlled by matching the maturities of its assets and liabilities, obtaining lines of credit and / or maintaining surplus liquidity as investments, which allows the Group to carry out its activities normally.

The management of liquidity risk involves maintaining sufficient cash and finance availability, through an adequate amount of assigned credit sources and the ability to settle transactions, mainly of indebtedness. In this regard, the Group's Management focuses its efforts on maintaining sources of financing through the availability of lines of credit and the registration of corporate bond programs and commercial papers.

The Group maintains a negative working capital generated mainly by short-term classified contingency provisions; of which its execution depends on the resolution of various instances, see note 33(b). In addition, the Group recorded a net loss in 2019 and 2018, due to the high competition in the sector. Nonetheless, the Group considers reversing this position through the launch of new services such as the convergent offer of fixed and mobile services, considering that it has a solid share in fixed services.

The following table shows the maturity of the Group's obligations and those of its Subsidiaries as at the date of the consolidated statement of financial position and the amounts to be disbursed at maturity, based on undiscounted payments that will be made:

	Less than 3 3 months S/000	to 12 months S/000	From 1 to 5 years S/000	More than 5 years S/000	Total S/000
As at December 31, 2019					
Other financial liabilities					
Amortization of capital	-	330,000	858,481	2,281,710	3,470,191
Interest payment flow	8,533	218,157	718,858	248,532	1,194,080
Financial lease liabilities	48,392	194,691	622,099	300,169	1,165,351
Trade accounts payable	2,046,591	-	-	-	2,046,591
Other accounts payable to related entities	2,991	-	1,938	-	4,929
Other accounts payable	<u>219,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,949</u>
Total liability flows	<u>2,326,456</u>	<u>742,848</u>	<u>2,201,376</u>	<u>2,830,411</u>	<u>8,101,091</u>
As at December 31, 2018					
Other financial liabilities					
Amortization of capital	150,081	284,505	934,086	756,673	2,125,345
Interest payment flow	12,905	80,035	286,099	89,977	469,016
Trade accounts payable	2,353,754	-	-	-	2,353,754
Other accounts payable to related entities	384	-	3,390	-	3,774
Other accounts payable	<u>159,945</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,945</u>
Total liability flows	<u>2,677,069</u>	<u>364,540</u>	<u>1,223,575</u>	<u>846,650</u>	<u>5,111,834</u>

The table above does not include any contingency provisions as their execution is subject to the resolution of various instances as per that described in nota 33(b). Likewise, it does not include hedging financial derivatives, because Management considers that such contracts are effectively settled on a net basis; consequently, the flow of the hedge derivatives and the reconciliation of the amounts equivalent to the accounting values of the discounted net flow generated by these instruments are presented below:

	Less than 3 3 months S/000	to 12 months S/000	From 1 to 5 years S/000	More than 5 years S/000	Total S/000
As at December 31, 2019					
Income	743,362	287,545	-	-	1,030,907
Expenses	(727,909)	(288,521)	-	-	(1,016,430)
Net flow	<u>15,453</u>	<u>(976)</u>	<u>-</u>	<u>-</u>	<u>14,477</u>
Discounted net flow	<u>(9,750)</u>	<u>448</u>	<u>-</u>	<u>-</u>	<u>(9,302)</u>
As at December 31, 2018					
Income	1,089,197	2,440	-	-	1,091,637
Expenses	(870,738)	(2,334)	-	-	(873,072)
Net flow	<u>218,459</u>	<u>106</u>	<u>-</u>	<u>-</u>	<u>218,565</u>
Discounted net flow	<u>8,180</u>	<u>114</u>	<u>-</u>	<u>-</u>	<u>8,294</u>

3.2 Capital risk management -

The Group actively manages a capital base to hedge the risks inherent in its activities. The capital adequacy of the Group is monitored using, among other measures, the indicators established by the Management.

The Group's objectives when managing its capital correspond to a broader concept than the "Equity" that is shown in the consolidated statement of financial position and is mainly constituted by: (i) safeguarding the Group's ability to continue operating in a manner that continues to provide returns to the shareholders and benefits to the other participants; and (ii) maintain a strong capital base to support the development of its activities.

The Group monitors its capital based on the leverage ratio, which is calculated by dividing the net debt by total capital. Net debt corresponds to total indebtedness (including commercial accounts payable, accounts payable to related entities, lease liabilities, and other accounts payable) minus cash and cash equivalents. The total capital corresponds to the equity as it is shown in the consolidated statement of financial position plus the net debt.

As of December 31, 2019, and 2018, the consolidated leverage indicator was as follows:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Total indebtedness	7,383,545	4,903,137
Less: Cash and cash equivalents	(1,015,924)	(88,724)
Net Debt (A)	6,367,621	4,814,413
Total equity (B)	4,750,945	5,896,628
Leverage ratio (A/B)	1.34	0.82

As at December 31, 2019 and 2018, there were no changes in the activities and policies of capital management in the Group.

3.3 Estimation of fair value -

(a) Instruments recorded at fair value according to their hierarchy -

The following table shows an analysis of financial instruments that are carried at fair value according to level of the fair value hierarchy:

	Quote Value in active markets <u>Level 1</u> <u>S/000</u>	observable significant variables <u>Level 2</u> <u>S/000</u>	Non observable significant variables <u>Level 3</u> <u>S/000</u>	<u>Total</u> <u>S/000</u>
As at December 31, 2019				
Financial liabilities -				
Derivative financial instruments:				
Foreign currency forward	-	9,302	-	9,302
Total financial liabilities	-	9,302	-	9,302
As at December 31, 2018				
Financial assets -				
Derivative financial instruments:				
Foreign currency forward	-	8,294	-	8,294
Total financial assets	-	8,294	-	8,294
Level 1 -				

The financial assets included in the Level 1 category are those that are measured based on quotes obtained from an active market. A financial instrument is considered as being quoted in an active market if prices are easily and regularly available from a centralized trading mechanism, agent, broker, industry group, price providers or regulatory entities; and said prices come regularly from transactions in the market.

Level 2 -

The financial instruments included in the Level 2 category are measured based on market factors. This category includes instruments valued using market prices of similar instruments, whether active or not, and other valuation techniques (models) in which all significant data are directly or indirectly observable in the market. The following is a description of how the fair value of the Group's main financial instruments included in this category is determined:

- Derivative financial instruments -

Derivatives designated as hedging instruments reflect the variation in the fair value of foreign currency futures contracts, designated as cash flow hedges to cover highly probable future purchases.

The fair values of swaps and forwards are measured using valuation techniques based on market data. Applied valuation techniques include swap valuation models, using present value calculations. These models consider various factors, including the credit quality of the counterparties, currencies, forward rates and interest rate curves.

The adjustment for credit valuation is applied to "over-the-counter" derivative exposures to consider the risk of default of the counterparty when measuring the derivative's fair value. A credit valuation adjustment is the cost of protection at the market price required to hedge the credit risk of the counterparty in this type of derivatives portfolio. The credit valuation adjustment is calculated by multiplying the probability of default, the default value of loss and the exposure expected at the time of default.

- Debt instruments available for sale -

The valuation of corporate bonds, lease bonds and public treasury bonds are measured by calculating the Net Present Value ("NPV") through discounted cash flows, zero coupon curves and considering current and observable market transactions. Other debt instruments are measured using valuation techniques based on assumptions supported by observable prices in current market transactions, obtained through price suppliers. However, when prices have not been determined in an active market, fair value is based on quotes from brokers and on assets that are valued using models where most of the assumptions are observable in the market.

Level 3 -

The financial assets included in level 3 are measured using a valuation technique (internal model), based on assumptions that are not supported by prices of observable transactions in the current market for the same instrument, or based on available market data. The Group did not have level 3 instruments as of December 31, 2019 and 2018.

- Instruments recorded at amortized cost -

In addition to the instruments recorded at fair value, the following is the disclosure of the comparison between the book values and the fair values of the Group's financial instruments that are recorded at amortized cost in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and liabilities:

	Quote value in active markets (Level 1) S/000	Observable significant variables (Level 2) S/000	Non-observable significant variables (Level 3) S/000	Fair value S/000	Book value S/000
As at December 31, 2019					
Financial assets -					
Other accounts receivable from related entities	-	27,333	-	27,333	27,333
Total financial assets	<u>-</u>	<u>27,333</u>	<u>-</u>	<u>27,333</u>	<u>27,333</u>
Financial liabilities -					
Instrument liability					
financial instruments	-	9,302	-	9,302	9,302
Bonds issued and debts and loans that accrue interest	-	3,444,925	-	3,444,925	3,444,925
Financial lease liabilities	-	1,165,351	-	1,165,351	1,165,351
Other accounts payable to related entities	-	4,929	-	4,929	4,929
Total financial liabilities	<u>-</u>	<u>4,624,507</u>	<u>-</u>	<u>4,624,507</u>	<u>4,624,507</u>
As at December 31, 2018					
Financial assets -					
Other accounts receivable from related entities	-	959	-	959	959
Asset as per financial derivative instruments	-	8,294	-	8,294	8,294
Total financial assets	<u>-</u>	<u>9,253</u>	<u>-</u>	<u>9,253</u>	<u>9,253</u>
Financial Liabilities -					
Instrument liability as per derivative instrument	-	-	-	-	-
Bonds issued and debts and loans that accrue interest	-	2,149,328	-	2,149,328	2,149,328
Other accounts payable to related entities	-	3,774	-	3,774	3,774
Total financial liabilities	<u>-</u>	<u>2,153,102</u>	<u>-</u>	<u>2,153,102</u>	<u>2,153,102</u>

The methodologies and assumptions used by the Group to determine the estimated market values depend on the terms and risk characteristics of the various financial instruments that are recorded at amortized cost and include the following:

- i) Assets whose fair value is similar to their book value -

For financial assets and liabilities that are liquid or have short-term maturities (less than three months), the carrying amount is considered to be similar to its fair value. This assumption also applies to term deposits, savings accounts without a specific maturity and floating rate financial instruments.

- ii) Fixed rate financial instruments -

The fair value of financial assets and liabilities that are at a fixed rate and amortized cost is determined by comparing the market interest rates at the time of initial recognition with the current market rates related to similar financial instruments.

The estimated fair value of interest accruing deposits is determined by discounted cash flows using market interest rates for financial instruments with similar maturities and credit risks. For the issued quoted debt, fair value is determined based on quoted market prices. When market prices are not available, the discounted cash flow model based on the yield curve of the interest rate is used for the remaining term.

4 ESTIMATED AND CRITICAL ACCOUNTING CRITERIA

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make significant judgments, estimates and assumptions to determine the reported figures of assets and liabilities, the exposure of contingent assets and liabilities on the date of the consolidated financial statements, as well as the reported figures of income and expenses for the years ended December 31, 2019 and 2018.

In Management's opinion, these estimates were made on the basis of their best knowledge of the relevant facts and circumstances at the date of preparation of the consolidated financial statements; however, the final results may differ from the estimates included in the consolidated financial statements. The Group Management does not expect that the variations, if any, will have a significant effect on the consolidated financial statements.

The most significant estimates considered by Management in relation to the consolidated financial statements basically refer to:

- Estimation for doubtful accounts. See note 2.8 and notes 3, 7 and 8.
- Estimate for contractual assets and liabilities, see notes 2.24 and 9.
- Estimate for devaluation of inventories. See notes 2.10 and 10.
- The residual value, useful life and depreciation of property, plant and equipment. See notes 2.11 and 13.
- Estimate for impairment of long-term assets. See notes 2.14, 13, 14 and 16.
- Assets and liabilities for deferred taxes. See notes 2.21 and 24.
- Estimated accrued income. See note 2.24.
- Provision for decommissioning. See notes 2.11 and 2.20.
- Provision for contingencies. See notes 2.20 and 33(b).
- Cash flow hedge. See note 2.9.
- Provision for restructuring. See notes 2.20, 20 and 29.
- Estimation of uncertainties and judgments made in relation to lease accounting. See notes 2.25 and 15.

Any difference in the estimates in the subsequent real results is recorded in the results of the year in which it occurs.

5 FINANCIAL INSTRUMENTS

(a) Financial instruments by category

The classification of financial instruments by category is as follows:

	<u>2019</u> S/000	<u>2018</u> S/000
Assets according to consolidated status of financial position		
Financial assets at amortized cost:		
- Cash and cash equivalents:	1,015,924	88,724
- Commercial accounts receivable and Other accounts receivable (*)	1,927,057	1,709,356
- Accounts receivable from related entities	27,333	959
- Financial derivative instruments used for hedging	-	8,294
	<u>2,970,314</u>	<u>1,807,333</u>
Liabilities according to the consolidated statement of financial position		
Financial liabilities at amortized cost:		
- Financial obligations	3,444,925	2,149,442
- Financial lease liability	1,165,351	-
- Trade accounts payable and Other accounts payable (*)	2,266,540	2,513,813
- Other accounts payable to related entities	4,929	3,774
- Financial derivative instruments used for hedging	9,302	-
	<u>6,891,047</u>	<u>4,667,029</u>

(*) Does not include advances or taxes.

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of financial assets mentioned above.

6 CASH AND CASH EQUIVALENTS

(a) The breakdown of the item is presented below:

	<u>2019</u> S/000	<u>2018</u> S/000
Fixed funds	477	414
Current and savings accounts (b)	131,939	62,502
Term deposits (c)	708,200	6,000
Term deposits of the trust fund (c) and (d)	142,200	9,148
Trust fund (d)	<u>33,108</u>	<u>10,660</u>
	<u>1,015,924</u>	<u>88,724</u>

(b) Current and savings accounts are held in local and foreign banks and are denominated in soles, US dollars and euros. This balance includes current accounts held in the financial institution of Telfisa Global B.V. Group. See note 23(h). Savings accounts are remunerated at current rates in the respective market.

(c) Term deposits have original maturities of less than 90 days and may be renewed upon maturity. As of December 31, 2019, and 2018, they include deposits in national currency and US dollars in various national banks. These term deposits are remunerated at current rates in the market.

(d) Includes the funds of the trust fund administered by La Fiduciaria S.A. (with the involvement of the Banco de Credito del Peru and Banco Santander), which consolidates the collection rights and the cash flows in such a way that the Group can better manage and give greater attention to direct payments that are required for the normal operation of their businesses. The funds that make up the trust fund come from the accounts held at the Banco de Credito del Peru and Banco Santander denominated: (i) BCP disbursements, where the financing from the Banco de Credito del Peru is received, (ii) collectors - validation, where payments are received from clients assigned to the trust fund, (iii) payment accounts, where payments are made to suppliers, and (iv) Santander payment accounts where the Group's own transfers are received. Paid-account funds can also be used to purchase eligible investments (financial instruments, derivative or exchange transactions) or can be held in cash. As of December 31, 2019, and 2018, the trust includes only cash.

(e) There are no restrictions on the balances of cash and cash equivalent as of December 31, 2019 and 2018.

7 COMMERCIAL ACCOUNTS RECEIVABLE, NET

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Fixed business subscribers	2,702,014	2,651,545
Mobile business subscribers	2,048,256	1,370,511
Data and information technology	713,157	654,673
Distributors, agencies and large stores	411,705	369,105
Wholesaler - Interconnection and Correspondents	245,943	296,006
Related, note 23 (d)	125,802	133,582
Others	<u>65,076</u>	<u>65,720</u>
	6,311,953	5,541,142
Less - Estimate for accounts of doubtful collection (c)	(<u>4,565,517</u>)	(<u>3,978,739</u>)
	1,746,436	1,562,403
Less - Non-current portion (d)	(<u>15,918</u>)	(<u>38,084</u>)
Current portion	<u><u>1,730,518</u></u>	<u><u>1,524,319</u></u>

(b) Commercial accounts receivable (net) generate interest after maturity. The items of internet, fixed and public telephony, paid television, mobile phone subscribers, distributors, agencies and large stores are mainly billed in soles, while accounts receivable for data and information technology, interconnection and foreign correspondents are mainly are billed in US dollars.

As at December 31, 2019, commercial accounts receivable include estimates for unbilled services rendered for approximately S/ 54,630,000 (S/ 108,620,000 as at December 31, 2018). The Group Management estimates that these items will be invoiced in full in 2020.

As at December 31, 2019, the Group had approximately 2,120,000 fixed and public telephony lines in service, 4,588,000 postpaid mobile telephony lines 1,956,000 connections in broadband service, and approximately 1,505,000 paid television accesses (2,426,000, 4,631,000, 1,954,000 and 1,535,000, respectively as at December 31, 2018).

(c) The movements in the provision for doubtful accounts as at December 31, 2019 and 2018 is as follows:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Initial balance	3,978,739	3,586,569
Endowment for the period, note 28(a)	595,678	373,240
Net exchange differences	(8,900)	19,294
Others	-	(364)
Final balance	<u>4,565,517</u>	<u>3,978,739</u>

In Management's opinion, the allowance for doubtful accounts is sufficient to cover the credit risk of these accounts at the date of the consolidated statement of financial position, in accordance with the Group's accounting practice, described in note 3.1 (b).

(d) As at December 31, 2019 and 2018, they include accounts receivable for financed sales of mobile terminals and equipment related to internet, central and paid television services, which have maturities of up to 24 months. Contractually these accounts do not generate interest, but for accounting purposes an implicit interest is estimated, which is deferred at the time of the sale and is recognized as revenue depending on the duration of the contract.

The amount recognized for implicit interest during the year 2019 amounts to S/ 35,236,000 (S/ 19,880,000 in 2018) and is presented in the "financial income" item of the consolidated statement of income.

(e) In 2019, the assignment of collection rights to customers of the Group with the Continental Bank Trust (BBVA) was made, for the amount of S/ 296,997,000, retaining risks for S/ 6,540,000 as at December 31, 2019; presenting a portion as "Other financial liabilities" (see note 17.3) generating a loss on sale (discount) of S/ 7,927,000. The latter also charged the Group with the collection of the assigned rights. See note 20 (c).

In the last quarter of 2018, cessions of collection rights were made to the Group's customer with the Banco Continental Trust (BBVA), for S/ 175,457,000, and risks were held for S/ 5,264,000. This portion has been presented as "Other Financial Liabilities" (see note 17.3) and generates a loss in sales (discount) of S/ 4,774,000. Additionally, the latter commissioned the Group to collect the assigned rights. See note 20(c).

8 OTHER ACCOUNTS RECEIVABLE, NET

(a) The table below presents the breakdown of the item:

	<u>2019</u> S/000	<u>2018</u> S/000
Collection rights for coercive executions (c)	141,443	140,682
Collection rights (c)	110,062	224,809
Subsidies receivable (d)	102,498	104,294
Loans to staff, note 23(f)	27,759	30,942
Tax credit for general sales tax, net -	-	25,577
Derivative financial instruments, note 20 (d)	-	8,180
Sale of real estate	22,881	-
Loans to third parties	13,759	-
Other	41,483	42,659
	<u>459,885</u>	<u>577,143</u>
Less - Estimate for doubtful accounts (f)	(158,997)	(157,575)
	300,888	419,568
Less - Non-current portion	(177,433)	(287,383)
Current portion	<u>123,455</u>	<u>132,185</u>
 Financial assets classified as		
Other accounts receivable	180,621	155,133
Non-financial assets classified as		
Other accounts receivable	<u>120,267</u>	<u>264,435</u>
	<u>300,888</u>	<u>419,568</u>

- (c) The collection rights for coercive executions mainly correspond to seizures of Group assets without a court ruling made by several municipalities at the national level. The Municipalities demand the payment of licenses and fines for the installation of an external plant without municipal authorization. Management continues with the filing of the legal actions and estimates that the seizures undertaken will be declared illegal. Likewise, based on a collectability study carried out, the respective doubtful collection estimates have been established.
- (b) As at December 31, 2019 and 2018, these correspond mainly to collection rights to the Tax Administration, for payment of tax assessments (see note 33(b)) that, in the opinion of Management and of the legal advisors, will be recovered when certain appeals filed in relation to the assessments received for income tax from previous years are resolved, as permitted by IAS 12 - "Income Tax". On July 11, 2019, the Group was notified of the Supreme Court ruling on the Telefónica Móviles process relating to the 2000 period "ACA7". This implied, after the evaluation carried out by the Group, a penalty of S/ 87,701,000 as at December 31, 2019. See note 33(b). The Group Management expects to recover this item in the long term.
- (d) Corresponds mainly to the Lambayeque Project, a contract signed on May 27, 2015, between the Group and the Peruvian State (represented by the Investment Fund in Telecommunications - FITEL), for the non-reimbursable financing of the Project "Broad Band for Integral Connectivity and the social development of the country's northern area", which has been collected according to the established schedule.

In accordance with the Group's accounting practice, described in note 2.22, both the disbursement received, and receivables are presented under "Deferred income" in the consolidated statement of financial position. See note 22.

- (e) The other accounts receivable are denominated in national and foreign currency and do not generate interest.
- (f) The other accounts receivable were collectively evaluated to determine if there was objective evidence of impairment. However, the Group determined that the estimate of doubtful collection at the end of the period is sufficient, in accordance with the Group's accounting practice, as described in note 2.8(iv).

9 ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Company has recognized the following assets and liabilities related to contracts with customers.

- (a) Contractual assets:

	<u>2019</u> S/000	<u>2018</u> S/000
Sale of terminals, note 2.24	135,405	285,166
Less - non-current portion	(6,110)	(17,867)
Current portion	<u>129,295</u>	<u>267,299</u>

- (b) Contract liabilities:

	<u>2019</u> S/000	<u>2018</u> S/000
Fixed and mobile telephone services, note 2.24	90,643	131,188
Deferred installation fee, note 2.24	52,229	41,333
IRU access rights (c)	52,777	34,013
Business project	13,320	16,923
Other	<u>7,988</u>	<u>-</u>
	216,957	223,457
Less - non-current portion	(79,391)	(61,205)
Current portion	<u>137,566</u>	<u>162,252</u>

- (c) Correspond to the irrevocable rights of unrestricted use of certain Group assets granted to third parties for a period of up to 20 years.

10 INVENTORIES

- (a) The breakdown of the item is presented below:

	<u>2019</u> S/000	<u>2018</u> S/000
Merchandise and supplies	249,705	289,077
Receivables	<u>75,678</u>	<u>50,913</u>
	325,383	339,990
Less - Devaluation estimate of inventories (c)	(18,548)	(27,808)
	<u>306,835</u>	<u>312,182</u>

- (b) The cost of inventories sold in the year ending December 31, 2019, was approximately S/ 1,296,617,000 (S/ 1,356,498,000 in the year 2018) and is presented in the item "Cost of equipment sales" in the consolidated statement of results.

(c) The movement in the provision for impairment of inventories as at December 31, 2019 and 2018 is as follows:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Initial balance	27,808	33,131
Transfer of IPT equity block, note 1.3	(1,014)	-
Recovery of devaluation of inventories, net, note 28	(7,987)	(5,323)
Others	(259)	-
Final balance	<u>18,548</u>	<u>27,808</u>

In Management's opinion, the estimate for inventory devaluation adequately hedges the estimated risk of loss on the dates of the consolidated statement of financial position.

11 OTHER NON-FINANCIAL ASSETS

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Deferred costs of compliance obligation (b)	440,904	266,626
Customer acquisition expense (c)	70,169	81,476
Maintenance of licenses and computer equipment	20,952	19,915
Insurance paid in advance	4,997	5,791
Advertising paid in advance	4,794	4,664
Advance payments for access rights (d)	4,163	89,605
Advances granted to suppliers	3,863	6,404
Costs for terminal equipment pending activation, net (e)	-	46,487
Rent paid in advance, note 2.30	-	36,023
Other	<u>109,063</u>	<u>24,840</u>
	658,905	581,831
Less - Non-current portion	(310,703)	(279,273)
Current portion	<u>348,202</u>	<u>302,558</u>

(b) Is constituted by the cost of equipment modems and decoders of Pay Television. Until January 2018, this equipment was sold to the client who contracted the service. However, due to a change in local regulation, this equipment is provided to the client as part of the service. The equipment is thus differentiated as it is an obligation of compliance for client contracts.

(c) Corresponds to expenses directly related to obtaining commercial contracts (sales commissions, expenses with third parties, among others).

(d) As at December 31, 2019, includes the access rights not classified as lease as per the application of IFRS 16. See note 2.30. As at December 31, 2018, includes the rights of the Group to international submarine transmission access, rental of circuits for long-distance transmission and the right of usufruct of fiber optic cable, which were paid in advance and have expiries until the year 2041

(e) The cost of terminal equipment pending activation corresponds to the cost of terminals net of income, which are deferred due to the fact that they correspond to sales under concession and that they are not recognized as such until the equipment signal is activated, as explained in notes 2.10 and 2.24.

12 INVESTMENTS IN ASSOCIATES

(a) The table below presents the breakdown of the item:

	<u>2019</u> S/000	<u>2018</u> S/000
Associated companies		
Red Digital del Perú S.A.C. (b)	5,796	7,697
Internet Para Todos S.A.C. (c)	<u>261,481</u>	<u>-</u>
	<u>267,277</u>	<u>7,697</u>
Other share investments		
Wayra Perú Aceleradora de Proyectos S.A.C.	<u>41</u>	<u>41</u>
	<u>41</u>	<u>41</u>
	<u>267,318</u>	<u>7,738</u>

(b) Company incorporated in November 2014, which is dedicated to developing, managing and supporting diverse products and services for small, medium and large companies. The Group's stake in Red Digital Perú S.A.C. is 40.00 percent.

(c) On May 1, 2019, at the General Shareholders' Meeting, the Group undertook a simple reorganization by transferring certain assets to the new company Internet para Todos S.A.C. (see note 1.3 (a)), and a complementary non-cash contribution for the amount of S/ 1,022,000.

On May 10, 2019, the Company reached agreements with other investors--JML International Limited, a subsidiary of Facebook, Inc. (Facebook), Andean Development Corporation (CAF) and Inter-American Investment Corporation (IDB) to regulate their joint investment and common share in the equity of Internet Para Todos S.A.C. (IPT). The monetary contributions were:

<u>Company</u>	<u>Investment contribution</u> S/	<u>%</u>
Facebook	122,655,000	24.67
CAF	51,382,500	10.33
IDB	51,382,500	10.33

After the agreement with the partners, Telefónica del Perú diluted its participation to 54.67 percent of the IPT shares, recognizing an income of S/ 2,573,000; Furthermore, as a result of the agreements with the new shareholders, the Group lost control of the subsidiary, becoming an associate.

The following table shows the summary of the main items of the associate financial statements as at December 31, 2019.

	<u>2019</u> S/000
Asset	521,158
Liability	42,854
Equity	478,304
Fiscal year result	(13,546)

(d) The Associated Companies do not have contingent liabilities or capital commitments as of December 31, 2019 and 2018.

13 PROPERTY, PLANT AND EQUIPMENT, NET

(a) The changes and breakdown of the item, as at the date of the consolidated statement of financial position, are as follows:

	<u>Land</u> S/000	<u>Buildings and other constructions</u> S/000	<u>Plant</u> S/000	<u>Equipment and other</u> S/000	<u>Furniture and fixtures</u> S/000	<u>Works in progress and units receivables (c)</u> S/000	<u>Total</u> S/000
Cost							
As at January 1, 2018	136,794	1,758,993	24,106,641	1,002,826	121,687	945,930	28,072,871
Additions	-	-	6,697	22	-	1,320,284	1,327,003
Transfers	778	39,812	1,250,668	20,320	1,004	(1,312,582)	-
Transfer to intangible assets, note 14(a)	-	-	-	-	-	(186,844)	(186,844)
Other	(6,085)	6,085	-	-	-	19,041	19,041
Withdrawals and sales	(6,289)	(14,113)	(539,451)	(901)	(15)	-	(560,769)
As at December 31, 2018	125,198	1,790,777	24,824,555	1,022,267	122,676	785,829	28,671,302
Additions	-	-	9,042	-	-	1,031,076	1,040,118
Transfers	510	24,343	841,870	33,258	1,260	(901,241)	-
Transfer to intangible assets, note 14(a)	-	-	-	-	-	(108,365)	(108,365)
Others	-	195	(195)	-	-	32,748	32,748
NIIF 16 transfer, note 15	-	-	(39,063)	(665)	-	-	(39,728)
Transfer of equity block, note 1.3(a)	-	(174,547)	(328,463)	(3)	-	(27,905)	(530,918)
Withdrawals and sales, note 30	(11,636)	(258,094)	(159,274)	(2,105)	(1,441)	(1,756)	(434,306)
As of December 31, 2019	<u>114,072</u>	<u>1,382,674</u>	<u>25,148,472</u>	<u>1,052,752</u>	<u>122,495</u>	<u>810,386</u>	<u>28,630,851</u>
Accumulated depreciation							
As at January 1, 2018	-	1,046,645	19,361,293	905,348	107,873	-	21,421,159
Depreciation for the period	-	71,905	953,837	39,972	4,115	-	1,069,829
Withdrawals and sales	-	(10,741)	(538,030)	(540)	(12)	-	(549,323)
Al 31 de diciembre de 2018	-	1,107,809	19,777,100	944,780	111,976	-	21,941,665
Depreciation for the period	-	58,476	938,175	41,442	3,347	-	1,041,440
Other	-	61	(61)	-	-	-	-
IFRS 16 transfer, note 15	-	-	(11,353)	(141)	-	-	(11,494)
Transferencia de bloque patrimonial, nota 1.3 (a)	-	(62,498)	(215,880)	(2)	-	-	(278,380)
Withdrawals and sales, note 30	-	(138,356)	(107,697)	(2,105)	(1,364)	-	(249,552)
As at December 31, 2019	<u>-</u>	<u>965,492</u>	<u>20,380,284</u>	<u>983,974</u>	<u>113,959</u>	<u>-</u>	<u>22,443,709</u>
Net Value							
As at December 31, 2019	<u>114,072</u>	<u>417,182</u>	<u>4,768,188</u>	<u>68,778</u>	<u>8,536</u>	<u>810,386</u>	<u>6,187,142</u>
As at December 31, 2018	<u>125,198</u>	<u>682,968</u>	<u>5,047,455</u>	<u>77,487</u>	<u>10,700</u>	<u>785,829</u>	<u>6,729,637</u>

- (b) As of December 31, 2018, "plant and equipment and other items" included assets acquired through finance lease agreements. See note 17.2(a). The net value of the asset carrying amounts are as follows:

	<u>2018</u> <u>S/000</u>
Equipment and other	525
	<u>525</u>

- (c) As at December 31, 2019 and 2018, the works in progress are mainly constituted by the construction of networks and the transmission of data; as well as projects to expand coverage, improve the quality of signal reception, increase the capacity of the voice and data transmission network, and software under development, which Management expects to complete in the short term.
- (d) In 2017, the Group initiated a plan to modernize its plant in which its 2G and 3G technology transmission equipment were updated and exchanged for multi-band devices that support 2G, 3G and 4G frequencies simultaneously, and culminated in 2019. As a result of this, the Group identified the equipment to be shut down and its useful life re-estimated. The foregoing implied greater depreciation in the assets included in the "Plant" item at an amount of S/ 49,212,000 as at December 2018, and as supported by technical reports.
- (e) As at December 31, 2019 and 2018, Management considered that there are no signs to indicate a deterioration of property, plant and equipment. In its opinion, no estimation is required for this item at the date of the consolidated statement of financial position.

14 INTANGIBLE ASSETS OTHER THAN CAPITAL GAIN, NET

- (a) The movement and composition of the item as at the date of the consolidated statement of financial position are detailed below:

	<u>Administrative concessions (b) S/000</u>	<u>Software (c) S/000</u>	<u>Software under development S/000</u>	<u>Total S/000</u>
Cost				
As at January 01, 2018	7,810,164	2,035,782	-	9,845,946
Transfer of works in progress, note 13(a)	<u>-</u>	<u>186,844</u>	<u>-</u>	<u>186,844</u>
As at December 31, 2018	7,810,164	2,222,626	-	10,032,790
Additions	164	-	56,088	56,252
Transfer of equity block, note 1.3	-	(952)	-	(952)
Transfer of works in progress, note 13(a)	<u>-</u>	<u>108,365</u>	<u>-</u>	<u>108,365</u>
As at December 31, 2019	<u>7,810,328</u>	<u>2,330,039</u>	<u>56,088</u>	<u>10,196,455</u>
Accumulated amortizement				
As at January 1, 2018	5,665,752	1,727,478	-	7,393,230
Amortization for period	<u>159,265</u>	<u>204,266</u>	<u>-</u>	<u>363,531</u>
As at December 31, 2018	5,825,017	1,931,744	-	7,756,761
Amortization of the period	156,796	205,803	-	362,599
Transfer of equity block, note 1.3	-	(952)	-	(952)
As at December 31, 2019	<u>5,981,813</u>	<u>2,136,595</u>	<u>-</u>	<u>8,118,408</u>
Net value				
As at December 31, 2019	<u>1,828,515</u>	<u>193,444</u>	<u>56,088</u>	<u>2,078,047</u>
As at December 31, 2018	<u>1,985,147</u>	<u>290,882</u>	<u>-</u>	<u>2,276,029</u>

(b) The concessions include:

- (i) The difference between the share acquisition cost and the fair value of the respective net assets of the Compañía Peruana de Teléfonos S.A. (CPT), acquired by the Group in 1994, was allocated to the cost of the concession, which amortizes over a period of 33 years, maturing in December 2027.
 - (ii) Band A 1710-1730 Mhz and 2110-2130 Mhz (4G LTE) in Lima and Provinces, awarded by the MTC in July 2013 for US \$152,229,000, which is amortized over a period of 20 years until the year 2033. It also includes the use of the B band of provinces, the use of the band in Lima and Callao, and the use of the 25 Mhz band corresponding to the 1,900 Mhz band.
 - (iii) Block C, of the 700 Mhz band, in Lima and Provinces, signed with the MTC in July 2016, for US \$315,007,700, which is amortized over a period of 20 years until the year 2036.
- (c) The software includes the financial and accounting applications based on the SAP system, as well as the network licenses corresponding to software for platforms that support the commercial systems. The software activated during 2019 and 2018, corresponds mainly to corporate systems for the commercial area, office applications, control equipment software and network management, among others.
- (d) As at December 31, 2019 and 2018, Management considered that there were no signs to indicate the existence of a deterioration in the value of the intangibles. In its opinion, no estimation is required on the date of the consolidated statement of financial position.

15 RIGHTS-OF-USE ASSETS

(a) The movement and composition of the item as at the date of the consolidated statement of financial position are detailed below:

	Rights of use for Land and natural assets S/000	Rights of use of constructions S/000	Rights of Use for installations technical and machinery S/000	Other rights of use S/000	Total S/000
Cost					
As of December 31, 2018	-	-	-	-	-
Adoption of IFRS16, note 2.30	<u>411,937</u>	<u>473,767</u>	<u>78,920</u>	<u>36,920</u>	<u>1,001,544</u>
As of January 1, 2019	411,937	473,767	78,920	36,920	1,001,544
Additions	80,986	134,665	6,843	-	222,494
Transfer of equity block, note 1.3 (a)	(12,284)	-	-	-	(12,284)
Transfer IFRS 16, note 13	-	-	<u>39,063</u>	<u>665</u>	<u>39,728</u>
As at December 31, 2019	<u>480,639</u>	<u>608,432</u>	<u>124,826</u>	<u>37,585</u>	<u>1,251,482</u>
Accumulated depreciation					
As at January 1, 2019	-	-	-	-	-
Transferencia NIIF 16, nota 13	-	-	11,353	141	11,494
Amortización del periodo	76,156	82,229	10,911	14,348	183,644
Transferencia de bloque patrimonial, nota 1.3(a)	(<u>751</u>)	-	-	-	(<u>751</u>)
Al 31 de diciembre de 2019	<u>75,405</u>	<u>82,229</u>	<u>22,264</u>	<u>14,489</u>	<u>194,387</u>
Net value					
As at December 31, 2019	<u>405,234</u>	<u>526,203</u>	<u>102,562</u>	<u>23,096</u>	<u>1,057,095</u>
As at December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (b) As at December 31, 2019, the item other rights of use include assets acquired through financial lease contracts, see note 18(a). The net value of the asset carrying amounts are as follows:

	<u>2019</u> <u>S/000</u>
Other rights of use	392
	<u>392</u>

- (c) As at December 31, 2018, these assets were presented as part of the "Property, plant and equipment, net" item. See note 13(b).

16 GOODWILL

- (a) Corresponds to the highest value paid for the acquisition of 17.44 percent of shares of Telefónica Móviles Perú Holding S.A.A. and of the entire share in Telefónica Empresas Perú S.A.A., as well as of the subsidiaries Star Global Com S.A.C. and Telefónica Multimedia S.A.C., over the share of the Group in the fair value of the respective net assets acquired, companies that were absorbed.

The movement for the item is as follows:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Initial balance	1,224,379	1,224,379
Internet Para Todos S.A.C. (c)	493	-
Discharge due to sale of Data Center business (d)	(9,727)	-
Final balance	<u>1,215,145</u>	<u>1,224,379</u>

- (c) On April 30, 2019, the Group purchased 100 percent of the shares in Internet para for Todos S.A.C. (IPT) from Wayra Peru, generating a capital gain due to the higher value paid for the acquisition of these shares. See notes 1.3(a) and 12(c).
- (d) On May 8, 2019, the agreement was entered into for the sale of the business and the assets related to the data center with Daytona DC, S.L.U., which were transferred in July 2019 for EUR 27,376,000 (equivalent to S/105,179,000). See note 30(c) and (e). The sale was confirmed by the signing of a contract for the provision of services for energy consumption for a term of ten years. The contract however does not include the sale of servers owned by the Group or those of its customers hosted in the data centers, and nor the management, operation and administration of the same.

The recoverable amount has been determined using projections of cash flows derived from the financial budgets approved by Senior Management. The aforementioned cover three years (3) and perpetuity. The corresponding discount rate has been determined and is applicable to cash flow projections. Cash flows that go beyond the period indicated in the projections are extrapolated using a specific growth rate that is similar to the long-term average growth rate for the industry in which the Group operates. Likewise, it was concluded in the analysis that the fair value minus the cost of sale did not exceed the value in use as determined.

As at December 31, 2019 and 2018, the amount of the capital gain was compared with the recoverable value. Management has subsequently determined that it is not necessary to establish an impairment estimate for these assets at the date of the consolidated statement of financial position. See note 2.14.

Key assumptions used in calculations of value in use

The calculation of the value in use for the units evaluated is mostly sensitive to the following assumptions:

- Gross margin
- Discount rate
- Market share during the budgeted period; and
- Long-term growth rate used to extrapolate cash flows that go beyond the budget period.

Gross margin -

Is based on the average values recorded in the three years prior to the commencement of the budget period and future projects of each company. It increases during the budget period with the expected efficiency improvements. In the long term, the gross margin (OIBDA) of the Group remains constant at 24.8 percent.

Discount rate -

It represents the current market assessment of the Group's specific risks, considering the time value of money and the particular risks of the underlying assets that were not included in the cash flow estimates. The calculation of the discount rate is based on the specific circumstances of the Group and represents the average cost of capital. This average considers both debt and equity. The cost of equity is based on the return on investment that the Group's shareholders expect to obtain. The cost of the debt is based on the loans that accrue interest that the Group must pay. The specific segment risk is incorporated through the application of individual beta factors. Beta factors are evaluated annually based on market information available to the public.

The after-tax discount rate used as at December 31, 2019 and 2018, was 8.58 and 9.49 percent, respectively.

Market Share -

Using industry information to forecast growth rates is important because Management evaluates how the position of the unit could change in relation to its competitors during the budgeted period. Management expects the Group's market share to remain stable during the budgeted period.

Long-term growth rate -

This rate is based on published market research and trends in the telecommunications sector. The growth rate as at December 31, 2019 and 2018, which has been considered for the following years is 3.56 and 3.38 percent, respectively

Sensitivity to changes in assumptions -

Management considers that the most sensitive assumptions for the model are the growth rate and the discount rate. Therefore, the Group carried out a sensitivity analysis where it concluded that the Group's recoverable value is above its carrying amount by considering a variation of 10 percent in both variables simultaneously (an increase of 0.9 percent discount rate and reduction of 0.3 percent growth rate). It was concluded that the Group would remain above the book value and would not have to recognize any impairment in capital gain as at December 31, 2019.

17 OTHER FINANCIAL LIABILITIES

(a) The breakdown of the item is presented below:

	2019			2018		
	Current portion S/000	Non-current portion S/000	Total S/000	Current portion S/000	Non-current portion S/000	Total S/000
Bonds (17.1)	153,002	3,036,855	3,189,857	165,724	1,456,164	1,621,888
Long-term debt (17.2)	242,141	-	242,141	106,020	233,434	339,454
Short-term debt (17.3)	12,927	-	12,927	187,986	-	187,986
	<u>408,070</u>	<u>3,036,855</u>	<u>3,444,925</u>	<u>459,730</u>	<u>1,689,598</u>	<u>2,149,328</u>

(b) The movement of the other financial liabilities as at December 31, 2019 and 2018, is as follows:

	Cash flow				Changes not producing cash flows		
	Initial balance S/000	New loans S/000	Loan payments S/000	Interest payments S/000	Accrued interest S/000	Difference in exchange rates S/000	Final balance S/000
2019							
Financial obligations	<u>2,149,328</u>	<u>2,804,951</u>	<u>(1,551,104)</u>	<u>(170,415)</u>	<u>212,213</u>	<u>(48)</u>	<u>3,444,925</u>
2018							
Financial obligations	<u>1,905,436</u>	<u>1,085,384</u>	<u>(853,862)</u>	<u>(103,281)</u>	<u>115,177</u>	<u>474</u>	<u>2,149,328</u>

17.1 Bonds -

(a) As at December 31, 2019 and 2018, the following bond issuances remained in effect:

Program	Issue and series	Maturity date	Authorized amount S/000	Amount used S/000	Total		Current portion Non-current portion			2018 S/000
					2019 S/000	2018 S/000	2019 S/000	2018 S/000	2019 S/000	
Second (**)	27th. A	August, 2019	S/200,000	S/50,000	-	51,077	-	51,077	-	-
Fourth (*)	12th. A	November, 2019	S/120,000	S/60,000	-	84,031	-	84,031	-	-
Fourth (*)	19th. A	July, 2027	S/150,000	S/60,000	88,349	86,723	1,462	1,429	86,887	85,294
Fourth (*)	19th. B	April, 2028	(***)	S/49,000	68,375	67,124	374	369	68,001	66,755
Fourth (*)	19th. C	July, 2028	(***)	S/20,000	27,779	27,270	387	380	27,392	26,890
Fourth (*)	37th. A	May, 2028	S/200,000	S/48,000	66,579	65,360	222	219	66,357	65,141
Fifth (*)	22nd Ab	October, 2019	(***)	S/12,000	-	15,750	-	15,750	-	-
Fifth (*)	22nd Ac	October, 2021	(***)	S/24,000	32,087	31,501	259	255	31,828	31,246
Sixth (f)	11th. A	June, 2023	S/400,000	S/260,000	260,912	260,892	912	892	260,000	260,000
Sixth	11th. B	April, 2024	(***)	S/120,000	121,687	121,681	1,687	1,681	120,000	120,000
Sixth	12th. A	June, 2020	S/200,000	S/110,000	110,252	110,228	110,252	228	-	110,000
Sixth (g)	12th. B	May, 2021	(***)	S/70,000	70,348	70,332	348	332	70,000	70,000
Sixth	13th. A	July, 2022	S/200,000	S/140,000	143,511	143,494	3,511	3,494	140,000	140,000
Sixth	14th. A	September, 2022	S/200,000	S/100,000	101,637	101,626	1,637	1,626	100,000	100,000
Sixth	15th. A	October, 2024	S/135,000	S/135,000	136,495	136,487	1,495	1,487	135,000	135,000
Sixth (g)	16th. A	April, 2025	S/400,000	S/105,120	106,201	106,195	1,081	1,075	105,120	105,120
Sixth (g)	17th. A	May, 2030	S/250,000	S/60,000	62,094	60,957	242	239	61,852	60,718
First (g)	1st. A	October, 2026	S/200,000	S/80,000	81,159	81,160	1,159	1,160	80,000	80,000
First (h)	18th. A	April, 2027	S/1,700,000	S/1,700,000	1,712,392	-	27,974	-	1,684,418	-
Total					<u>3,189,857</u>	<u>1,621,888</u>	<u>153,002</u>	<u>165,724</u>	<u>3,036,855</u>	<u>1,456,164</u>

(*) Annual interest rate with constant update value.

(**) Bonds placed by Telefónica Móviles S.A.

(***) The authorized amount is unique for the series (A, B or C) of the same issue.

- (b) The bonds in Soles in effect as at December 31, 2019 and 2018, caused a weighted average annual interest rate of 6.74 percent and 5.81 percent, respectively. On the other hand, the weighted average spread of the VAC bonds in effect as at December 31, 2019 and 2018, was 3.24 percent and 3.33 percent, respectively.

- (b) As at December 31, 2019 and 2018, the bonds issued as per contractual conditions matured as follows:

Year of maturity	2019			2018		
	Interest S/000	Principal S/000	Total S/000	Interest S/000	Principal S/000	Total S/000
2019	-	-	-	16,335	149,389	165,724
2020	43,002	110,000	153,002	-	110,000	110,000
2021	-	101,829	101,829	-	101,246	101,246
2022	-	240,000	240,000	-	240,000	240,000
2023	-	260,000	260,000	-	260,000	260,000
2024 onwards	-	2,435,026	2,435,026	-	744,918	744,918
Total	<u>43,002</u>	<u>3,146,855</u>	<u>3,189,857</u>	<u>16,335</u>	<u>1,605,553</u>	<u>1,621,888</u>

- (d) The resources raised in the bond issue were used to finance working capital, restructuring liabilities, making investments, among others. These bonds are guaranteed with the equity of Telefónica del Perú S.A.A.
- (e) The amount authorized for the issuance of bonds is up to US \$1,650,000,000, outstanding or their equivalent in national currency, as approved by the General Shareholders' Meeting on March 24, 2017, of Telefónica del Perú S.A.A., within a term that was extended until December 31, 2022.
- Furthermore, within the same term, it may issue short-term instruments up to an amount of US \$550,000,000 outstanding with a maximum limit of US \$2,000,000,000 as a whole.
- (f) In June 2016, the issue of Corporate Bonds maturing in June 2023, and for an amount of S/ 260,000,000 at an issue price at par and a fixed nominal annual interest rate of 6.66 percent, was finalized. The foregoing was undertaken in order to assume the expenses associated with the Group's participation in the public tender for Block C of the 700 Band (see note 14(b)(iii)).
- (g) As at December 31, 2018, the issuance of Corporate Bonds for a total amount of S/ 315,120,000 was finalized, with the purpose of re-profiling the financial debt and financing the working capital of the Group.
- (h) In April 2019, the issuance of an International Bond with maturity in April 2027 was finalized, and for an amount of S/ 1,700,000,000, at a nominal fixed annual interest rate of 7.38 percent. The resources raised in the placement will be used for the execution of investment projects in capital goods, the re-profiling of some debt operations and other corporate uses.

17.2 Long-term debt -

(a) As at December 31, 2018 and 2019, the long-term debt comprised of:

Creditor	Payment Currency form	Maturity date	2019		2018		Current portion		Non-current portion		
			Foreign currency	Equivalent in national currency	Foreign currency	Equivalent in national currency	2019	2018	2019	2018	
			US\$000	S/000	US\$000	S/000	S/000	S/000	S/000	S/000	
Banco Europeo de Inversiones (Luxembourg)	US\$	Half-yearly	April, 2019	-	-	716	2,419	-	2,419	-	-
BBVA Banco Continental, financial leasing(e)	US\$	Half-yearly	April, 2020	-	-	29	100	-	66	-	34
BBVA Banco Continental, financial leasing(e)	US\$	Half-yearly	September, 2020	-	-	35	117	-	58	-	59
BBVA Banco Continental, financial leasing(e)	US\$	Half-yearly	February, 2021	-	-	40	136	-	54	-	82
BBVA Banco Continental, financial leasing(e)	US\$	Half-yearly	March, 2021	-	-	45	151	-	60	-	91
Banco Scotiabank del Perú	S/	On maturity	May, 2019	-	-	-	41,330	-	41,330	-	-
Banco de Crédito del Perú	S/	On maturity	May, 2019	-	-	-	21,717	-	21,717	-	-
Banco de Crédito del Perú	S/	On maturity	May, 2020	-	68,964	-	65,408	68,964	-	-	65,408
Banco de Crédito del Perú	S/	On maturity	August, 2020	-	112,443	-	107,026	112,443	-	-	107,026
Banco Scotiabank del Perú (f)	S/	On maturity	April, 2020	-	60,734	-	60,734	60,734	-	-	60,734
Banco Scotiabank del Perú	S/	On maturity	December, 2019	-	-	-	40,430	-	40,430	-	-
Financial derivatives, net (d)			-	-	-	(114)	-	(114)	-	-	-
Total			-	242,141	-	339,454	242,141	106,020	-	-	233,434

(b) The long-term debts in Soles in effect as at December 31, 2019 and 2018 produced a weighted average annual interest rate of 4.87 and 4.83 percent respectively. The debts in foreign currency in effect as at December 31, 2018, accrue a weighted average annual interest rate of 3.63 percent.

(c) As at December 31, 2019 and 2018, long-term debt has the following maturities:

Year of maturity	2019			2018		
	Interest S/000	Principal S/000	Total S/000	Interest S/000	Principal S/000	Total S/000
2019	-	-	-	3,732	102,288	106,020
2020	22,141	220,000	242,141	13,288	220,063	233,351
2021	-	-	-	-	83	83
Total	<u>22,141</u>	<u>220,000</u>	<u>242,141</u>	<u>17,020</u>	<u>322,434</u>	<u>339,454</u>

(f) As at December 31, 2019, the Company did not maintain cash flow hedge contracts (swaps) for exchange rate and interest rate risk. As at December 31, 2018 it was US \$2,260,000.

(e) The future minimum payments for financial leases obtained as at December 31, 2018, are as follows:

	As at December 31 2018 S/ 000
2019	252
2020	218
2021	<u>61</u>
Total minimum lease payments	531
Less:	
Financial burden to apply to results during the lease term	(<u>27</u>)
Current value of the minimum lease payments	<u>504</u>
Financial lease liabilities	
Current	238
Non-current	<u>266</u>
Total	<u>504</u>

As at December 31, 2019, financial lease liabilities are presented in the heading of "Financial lease liabilities", in accordance with IFRS 16. See notes 2.30 and 18.

(f) In September 2018, the loan with Banco Scotiabank was renewed for the amount of S/ 60,000,000 at an interest rate of 4.10 percent. Maturity was extended to April 2020, appearing in December 2018 as long-term debt.

17.3 Short-term debt -

(a) The breakdown of the item is presented below:

	Currency of origin	2019 S/000	2018 S/000
Banco Scotiabank (d)	S/	-	50,802
BBVA Banco Continental (d)	S/	-	50,795
BBVA Banco Continental (d)	S/	-	50,740
Banco de Crédito del Perú (d)	S/	-	30,385
BBVA Banco Continental Trust (b)		S/ 6,540	5,264
Telxius Torres Peru S.A.C. (c) S/		6,387	-
Total		<u>12,927</u>	<u>187,986</u>
Debt composition			
Principal		12,927	185,264
Interest		-	2,722
Total		<u>12,927</u>	<u>187,986</u>

(b) Risk not transferred in the assignment of collection rights with the BBVA Banco Continental Trust. See note 7(e).

(c) As at December 31, 2019, the Group sold 944 towers to Telxius Torres Peru S.A.C., for a total value of S/ 376,843,000 plus IGV. The Group has only recognized as income S/ 370,456,000 since the purchaser has the power to request the return of a certain number of towers according to the clauses of the contract. See note 13(a) and 30(c).

(d) Loans received for working capital

(e) The current average annual rate of loans in Soles as at December 31, 2018 was 3.31 percent.

18 FINANCIAL LEASES LIABILITIES

(a) The breakdown of the item is presented below:

	2019 US\$ 000	S/ 000
Financial lease liabilities. See notes 2.30 and 15	86,357	286,445
Financial lease liabilities. See Notes 2.30 and 15	-	878,640
Financial leasing (d)	80	266
	-	1,165,351
Less - Non-current portion	-	(922,268)
Current portion	-	<u>243,083</u>

(b) Future payments as per the leases as at December 31, 2019 are as follows:

	2019 S/000
2020	243,083
2021	181,284
2022	158,451
2023	141,093
2024 onwards	<u>441,440</u>
	<u>1,165,351</u>

(c) The current average annual rate of lease liabilities in Soles as at December 31, 2019 was 3.40 percent and, in dollars, 3.81 percent.

(d) The future minimum payments for financial leases obtained as at December 31, 2019, are as follows:

	<u>2019</u> <u>S/000</u>
2020	214
2021	<u>59</u>
Total minimum lease payments	273
Less:	
Financial burden to apply to results during the lease term	(<u>7</u>)
Current value of the minimum lease Payments	<u>266</u>
Financial lease liabilities	
finance	208
Not current	<u>58</u>
Total	<u>266</u>

(e) As at December 31, 2018, the financial lease liabilities were presented in the section "Financial Obligations". See note 17.2.

19 COMMERCIAL ACCOUNTS PAYABLE

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
National suppliers (c)	985,789	1,147,993
Accrual of obligations to be billed	720,524	775,713
Related, note 23(d)	215,814	301,800
Foreign suppliers	117,050	124,071
Deposits in contractor guarantee	<u>7,414</u>	<u>4,177</u>
	<u>2,046,591</u>	<u>2,353,754</u>

(b) Commercial accounts payable are denominated in Soles, US dollars and Euros, do not accrue interest, have current maturities, are normally paid in an average period of 60 days, and no guarantees have been granted.

(c) Domestic suppliers, as at December 31, 2019 and, 2018, represented S/ 320,934,000 and S/ 505,887,000, respectively, in accounts payable that are under assignment of collection rights with Investment Funds, in which TFP S.A.C. (an affiliate of the Group) provides the management services required for suppliers to access such transactions. The aforementioned collection rights transfer transactions have not involved a change in the commercial terms agreed with the suppliers and the Group. As such, their classification as commercial accounts payable is maintained.

(d) The carrying amounts of the commercial accounts are considered equal to their fair values due to their short-term nature.

20 OTHER ACCOUNTS PAYABLE

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Remuneration and vacations (b)	422,429	208,168
Collection on behalf of third parties (c)	161,055	101,697
Taxes and royalties payable, note 23(h)	43,736	27,725
Employee share, note 23	35,635	446
Dividends and returns payable to shareholders	21,295	27,667
Security deposits	12,373	14,281
Derivative financial instruments (d)	9,302	-
Other	<u>15,924</u>	<u>16,297</u>
	721,749	396,281
Less - Non-current portion (b)	(<u>193,108</u>)	(<u>76,281</u>)
Current portion	<u>528,641</u>	<u>320,000</u>
Financial liabilities classified as other accounts payable	219,949	159,945
Non-financial liabilities classified as other accounts payable	<u>501,800</u>	<u>236,336</u>
	<u>721,749</u>	<u>396,281</u>

- (b) On September 26, 2019, Management initiated an Incentive Voluntary Retirement Program called "New Horizons", which achieved the affiliation of 736 employees on October 11, 2019, for S/ 332,062,000. These employees disengaged from the Group on October 15, 2019. See notes 2.20 and 29(a). Also, on December 30, 2019, the Group launched an additional retirement program for S/ 16,011,000. This plan concluded with the affiliation of 34 workers.

In the third quarter of 2018, Management initiated a Voluntary Retirement Program Incentive called "Valuable Time". As at December 31, 2019 and 2018, liabilities for organizational restructuring costs were estimated at S/ 14,881,000 and S/ 146,878,000 respectively. See notes 2.20 and 29(a).

- (c) Collections made by the Group on behalf of the Continental Bank Trust (BBVA), on rights assigned by the Group. See note 7(e).
- (c) As at December 31, 2019, the Group had forwards cash flow hedging contracts to reduce the exchange rate risk of the exchange rate for disbursements of certain operations, for a nominal value of US\$ 4,000,000 that has maturity dates during the year 2020. As at December 31, 2018, the hedge contracts were for US \$1,000,000. The cash flow hedge of the future expected payments was evaluated as being highly effective. It is expected that the amounts retained in the separate statement of other comprehensive income will affect the consolidated income statement in each of the future periods until their maturity dates.

21 OTHER PROVISIONS

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Litigation and risks, note 33(b)	579,029	2,483,079
Tower decommissioning, note 2.20	49,906	108,900
Other (d)	<u>10,989</u>	<u>1,218</u>
	639,924	2,593,197
Less - Non-current portion	(<u>276,957</u>)	(<u>459,646</u>)
Current portion	<u>362,967</u>	<u>2,133,551</u>

<u>2019</u>	<u>2018</u>
<u>S/000</u>	<u>S/000</u>

(b) Item movement is detailed below:

	<u>Litigation & risks</u>	<u>Decommissioning</u>	<u>Other</u>	<u>Total</u>
	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
As at January 1, 2018	2,446,288	131,547	3,832	2,581,667
Additions	103,232	7,575	566	111,373
Disposals	-	(30,222)	(3,180)	(33,402)
Payments	(66,441)	-	-	(66,441)
As at December 31, 2018	2,483,079	108,900	1,218	2,593,197
Adoption IFRIC 23, note 2.2(a) and 2.29 (b)	(2,097,690)	-	-	(2,097,690)
Balance at January 1, 2019	385,389	108,900	1,218	495,507
Additions, See note 33(b)	236,468	10,209	19,143	265,820
Disposals	-	(69,203)	(9,372)	(78,575)
Payments	(297,806)	-	-	(297,806)
As at December 31, 2019	579,029	49,906	10,989	639,924

(c) Includes, mainly, various provisions made by the Group in accordance with the practice described in note 2.20, based on best estimates of the disbursement that would be required to settle obligations on the date of the consolidated statement of financial position.

Management and its internal and external legal advisors consider that the provisions recorded are sufficient to cover the risks that affect the Group's business as at December 31, 2019 and 2018, as described in note 33(b).

(d) As at December 31, 2019, as a result of the 944 towers sold, the Group made a provision for tower reinforcement. See notes 17.3(c) and 30(d).

22 DEFERRED INCOME

(a) The breakdown of the item is presented below:

	<u>2019</u>	<u>2018</u>
	<u>S/000</u>	<u>S/000</u>
Subsidies, (b) and notes 8(d) and 2.22	109,243	139,940
Intégrame	4,042	5,768
Others	35,322	32,262
	148,607	177,970
Less - Non-current portion	(99,611)	(125,321)
Current portion	48,996	52,649

(b) Deferred revenue from grants mainly includes:

- Lambayeque Project: corresponds to the contract signed on May 27, 2015, between the Group and the Peruvian State (represented by the Investment Fund in Telecommunications - FITEL), for the non-reimbursable financing of the Project "Integral Broadband Connectivity for development social activity in the northern part of the country". The balance for this project as at December 31, 2019 and 2018, amounted to approximately S/ 102,806,000, and S/ 124,850,000, respectively. The Lambayeque project includes the construction of a transportation network for US \$11,613,000. The investment term was extended until 2027.
- BAS Project: corresponds to the contract signed on February 27, 2009, between the Group and the Peruvian State (represented by FITEL), for the non-reimbursable financing of the

Broadband Project for Isolated Locations (BAS). The balance for this project amounted to approximately S/ 579,000 and S/ 6,931,000 as at December 31, 2019 and 2018, respectively.

- Selva (Jungle) Project: corresponds to the contract signed on February 18, 2011, between the Group and the Peruvian State (represented by FITEI), for the non-reimbursable financing of the Project "Integration of rural areas and places of preferential social interest to the network of the mobile service - Selva". The balance for this project amounted to approximately S/ 5,858,000 and S/ 8,159,000 as at December 31, 2019 and 2018, respectively.

The Group has the obligation to use such financing at its own risk for the design, acquisition of equipment, installation, commissioning, operation and maintenance of a system that will allow the provision of public telecommunications services in beneficiary localities, complying with the conditions foreseen in the technical specifications presented in the financing contract.

Project	Lambayeque	BAS	Jungle
Investment term	14 months	19 months	12 months
Period of operation	120 months	48 months	50 months
End of the contract	Continue with the obligations stipulated in the respective concession contracts		
Amount	US\$47,626,000	US\$48,849,000	US\$14,718,000

As at December 31, 2019 and 2018, the Group accrued revenues of S/ 30,628,000 and S/ 25,365,000, respectively, which are presented under "Other income and operating expenses" of the consolidated statement of income. See note 30(a).

23 TRANSACTIONS WITH RELATED ENTITIES

- (a) During the years 2019 and 2018, the most significant transactions made by the Group with related entities were the following:

	<u>2019</u> S/000	<u>2018</u> S/000
Revenues with related companies from:		
Land rental		
- Telxius Torres Perú S.A.C.	583	526
Other commission transactions		
- TFP S.A.C.	1,172	981
Other non-recurring income related to:		
Sale of towers		
- Telxius Torres Perú S.A.C.	370,456	393
Expenses with related companies for:		
Trademark use fee, note 28(a)		
- Telefónica, S.A. (b)	-	(128,595)
Internet and fiber optic linking services		
- Telxius Cable Perú S.A.C.	(93,937)	(90,394)
Logistical services		
- Tgestiona Logística S.A.C.	(21,454)	(80,528)
Systems and management services		
- Telefónica Global Technology S.A.U.	(52,498)	(58,179)
Site rental		
- Telxius Torres Perú S.A.C.	(991)	(44,198)
Transfer of management capacity, note 28(a)		
- Telefónica Latinoamérica Holding S.L. (c)	(8,036)	(10,779)

- (b) The Group has a contract with Telefónica S.A., through which it pays a fee for the use of a brand equivalent to 1.6 percent of the monthly income, excluding local operations with related companies, unless the previous year had a negative balance of applying the operating result less depreciation and amortization and the CAPEX of that year. This situation occurred in 2018 and thus a corresponding fixed fee had to be paid in 2019.
- (c) As at December 31, 2019 and 2018, the Group had contracts with Telefónica Latinoamérica Holding S.L. for the transfer of management capacity.
- (d) As at December 31, 2019 and 2018, the Group maintains the following trade balances with related entities:

	<u>2019</u>		<u>2018</u>	
	<u>Accounts</u>	<u>Accounts</u>	<u>Accounts</u>	<u>Accounts</u>
	<u>receivable</u>	<u>payable</u>	<u>receivable</u>	<u>payable</u>
	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
Related:				
Telefónica International				
Wholesale Services S.L.	21,581	25,287	21,846	25,222
Media Networks Latin América S.A.C.	20,773	38,573	17,102	53,038
Telefonica Venezolana C.A.	14,235	-	14,542	16
Telxius Cable Perú S.A.C.	9,191	27,973	17,696	28,214
Internet para Todos S.A.C.	8,474	9,058	-	-
Telefónica Servicios TIWS S.A.C.	7,295	28,612	12,441	5,318
Telefónica, S.A.	2,863	712	4,206	70,294
Telefónica Digital España S.L.	2,637	24,537	8,776	17,919
Telefónica Data USA	2,111	734	2,915	756
Fundación de Telefónica del Perú	1,768	-	1,421	-
Pegaso Recursos Humanos S.A. de C.V.	1,335	-	1,472	-
Terra Networks Perú S.A.C.	1,295	400	885	1,740
Telefonica Ingeniería de Seguridad S.A.				
Peru branch	1,002	14,168	1,197	11,126
Telxius Torres Perú S.A.C.	858	462	2,066	12,808
Telefonica Servicios Audiovisuales S.A.				
Peru branch	616	22	574	983
Telefónica Móviles España, S.A.	412	-	-	1,266
Telefónica Latinoamérica Holding S.L.	366	8,471	519	11,915
Telefónica Gestión de Tecnología SAU	-	17,923	-	13,155
Telefónica Compras Electrónicas	-	2,497	-	5,424
Tgestiona Logística S.A.C. (*)	-	-	2,588	23,300
Media Networks Services Chile S.P.A.	-	-	1,830	-
Other	28,990	16,385	21,506	19,306
Commercial accounts receivable and payable related, (see notes 7(a) and 19(a))	<u>125,802</u>	<u>215,814</u>	<u>133,582</u>	<u>301,800</u>

(*) Tgestiona Logística S.A.C. was sold on April 4, 2019 to Brightstar Perú S.R.L.

- (e) As at December 31, 2019 and 2018, the Group had an account receivable from Wayra Perú Aceleradora de Proyectos S.A.C. for S/ 587,000 and S/ 959,000, respectively, for investments.

As at December 31, 2019, the Group maintained other accounts receivable from Telxius Torres Perú S.A.C. for S/ 26,746,000 for the sale of 61 towers.

As at December 31, 2019 and 2018, the Group had an account payable to Telefónica S.A. for an amount of approximately S/4,929,000 and S/3,744,000, corresponding to the fair value of the share options granted by the Parent company in Spain to certain executives of the Company, who may exercise their rights within a maximum term of until 2021. See note 2.26.

(f) Loans to personnel -

The Group grants loans to its employees and officers for terms of up to 24 months. The interest rates applied are generally below existing market interest rates; however, the other terms of the loans are substantially the same as those of the market. The balance of the loans to employees was approximately S/27,759,000 and S/ 30,942,000 as at December 31, 2019 and 2018, respectively. The loans are presented in the section "Other accounts receivable, net" of the consolidated statement of financial position. See note 8(a).

(g) Remuneration to the Board of Directors and members of the Key Management -

The remuneration received by the directors and key management personnel amounted to approximately S/ 25,987,000 during the year 2019 (approximately S/ 34,707,000 in the year 2018), which include short-term benefits, compensation for time served and others.

(h) As at December 31, 2019, the Group had current accounts in the Group's finance company, Telfisa Global, B.V., for an amount of US \$4,349,000 equivalent to S/ 14,400,000, which are presented under "Cash and cash equivalents". (As at December 31, 2018, the Company held current accounts in Telfisa Global, B.V., for an amount of US \$684,000, equivalent to S/ 2,304,000, respectively).

Terms and conditions of transactions with related parties -

Sales and purchases with related parties are made under market conditions equivalent to those applied to transactions between independent parties. As at December 31, 2019 and 2018, the Group had not recorded any estimate for doubtful accounts in relation to the balances owed by the related parties. This evaluation is performed annually by examining the commercial position of the related party and the market in which it operates.

In the opinion of Management, accounts receivable and payable classified as current as at December 31, 2019 and 2018, will be collected and paid in the short term.

24 TAX SITUATION

(a) Deferred taxes -

The movement of the item is as follows:

	As at Jan. 1 2018 S/000	Charge to income statement S/000	Charge to comprehensive income S/000	As at Dec. 31 2018 S/000	Charge to income statement S/000	Charge to financial situation statement S/000	Charge to other comprehensive income S/000	As at Dec. 31 2019
Deferred assets / (liabilities)								
Depreciation	313,782	51,485	-	365,267	(15,257)	(11,779)		338,231
Estimate for accounts of doubtful collection	137,818	72,052	-	209,870	109,433		-	319,303
Provision for various contingencies	52,532	(13,970)	-	38,562	(3,740)		-	34,822
VAC bonds	32,805	(2,587)	-	30,218	(5,093)		-	25,125
Personnel expenses	29,997	10,974	-	40,971	50,226	(25)		91,172
Provision for decommissioning of equipment	38,911	(33,174)	-	5,737	1,795	(170)		7,362
Other	34,948	15,964	-	50,912	47,146		-	98,058
Deterioration of inventories and property, plant and equipment	9,702	(1,462)	-	8,240	(2,358)	(299)		5,583
Deferred revenue from sale of towers	900	(326)	-	574	-		-	574
Finance leasing	8,267	(15,791)	-	(7,524)	724		-	(6,800)
Other deferred income	120	(70)	-	50	(17)		-	33
Payroll capitalization for plant construction	(442)	135	-	(307)	132		-	(175)
Financial instruments	2,248	987	(2,495)	740	(1,142)		25	(377)
Amortization of software licenses	(14,826)	5,375	-	(9,451)	8,701		-	(750)
Allocation of the price paid per fixed asset	(4,228)	529	-	(3,699)	529		-	(3,170)
Cost attributed to fixed assets	(13,825)	1,249	-	(12,576)	231		-	(12,345)
IFRS 15	(108,018)	(2,764)	-	(110,782)	47,002		-	(63,780)
IFRS 16	-	-	-	-	49,150		-	49,150
Administrative concession	(629,346)	46,983	-	(582,363)	45,924		-	(536,439)
Deferred costs and income-Decos	-	(78,486)	-	(78,486)	(76,290)		-	(154,776)
Income per connection fee	-	-	-	-	15,516		-	15,516
Capitalized financial costs	-	-	-	-	(4,594)		-	(4,594)
Tax loss	-	55,538	-	55,538	(54,776)		-	762
Total deferred assets / (liabilities), net	(108,655)	112,641	(2,495)	1,491	213,242	(12,273)	25	202,485

- (b) The deferred income tax is determined by its estimated reversal term as shown in the following detail:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Deferred income Tax assets:		
Reversal expected in the next 12 months	65,171	33,746
Reversal expected after 12 months	<u>137,314</u>	<u>(32,255)</u>
Total deferred income tax	<u>202,485</u>	<u>1,491</u>

- (c) The expense / (income) shown for the income tax in the consolidated profit or loss statement, is composed as follows:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Current	772,621	110,214
Deferred	<u>(213,242)</u>	<u>(112,641)</u>
	<u>559,379</u>	<u>(2,427)</u>

- (d) The reconciliation of effective income tax rate with the tax rate was as follows:

	<u>2019</u> <u>S/000</u>	%	<u>2018</u> <u>S/000</u>	%
Results before income tax	<u>(577,778)</u>	<u>100.00</u>	<u>(412,592)</u>	<u>100.00</u>
Income tax according to tax rate	<u>(170,445)</u>	<u>29.50</u>	<u>(121,715)</u>	<u>29.50</u>
Tax impact:				
Rental of premises for public telephony (non-deductible)	556	(0.10)	757	(0.18)
Contingencies and taxes (non-deductible), notes 21 y 33(b)	698,512	(120.90)	71,181	(17.25)
Expenses for previous years	1,980	(0.34)	2,658	(0.64)
Result in subsidiary and associates	939	(0.16)	(2,427)	0.59
Non-permitted expenses	959	(0.17)	26,611	(6.45)
Share for employees	-	-	1,635	(0.40)
Item recovery evaluation of deferred tax	-	-	12,287	(2.98)
Derivative instruments	7,794	(1.35)	(2,627)	0.64
Provision of collections	-	-	4,236	(1.03)
Other, net	<u>19,084</u>	<u>(3.30)</u>	<u>4,977</u>	<u>(1.21)</u>
Total expenses / (income) for tax on earnings	<u>559,379</u>	<u>(96.82)</u>	<u>(2,427)</u>	<u>0.59</u>

- (e) The Group is subject to the Peruvian tax regime. The income tax rate as at December 31, 2019 and 2018, on taxable income, after deducting employee share, calculated at a rate of 10 percent on taxable income.

Legal entities not domiciled in Peru are subject to withholding of an additional tax on dividends received. According to Legislative Decree No. 1261, the withholding of an additional tax on dividends received as of 2017 is 5 percent and whose distribution is made as of that date (until 2014, 4.1 percent and for the 2015 and 2016, 6.8 periods percent).

- (f) For purposes of the determination of income tax and general sales tax, the transfer prices of transactions with related entities and with companies resident in territories with low or no taxation must be supported by documentation and information on the valuation methods used and the criteria considered for their determination. Based on the analysis of the Group's operations, Management and its legal advisors believe that, as a consequence of the application of these standards, no material contingencies will arise for the Group as at December 31, 2019 and 2018.

As at December 31, 2019, the Group recorded a provision for income tax of S/ 772,621,000 that, net of the payments of tax instalments and the other provisions recorded, resulted in a balance of S/ 209,739,000 (S/ 110,214,000 from income tax payable that, in its net effect of tax instalment payments and other recorded provisions, resulted in a positive balance of S/ 304,285,000 as at December 31, 2018). The foregoing is thus presented as an asset. Likewise, the Group generated a tax loss in 2018, amounting to S/ 188,263,000; for which deferred income tax of S/ 55,538,000 was recorded. The Group substantially compensated the 2018 tax loss through the generation of taxable income in 2019 by means of the management plans described in note 3.1(iii).

Additionally, as described in note 2.2(a) the adoption of IFRIC 23 did not signify recognizing assets or liabilities for income tax. However, it meant a reconfiguring of provisions for S/ 2,177,835,000 of Short-term provisions for Current Income Tax, and S/ 90,880,000 of the Long-term Provisions for the Long-term Current Income Tax, as at December 31, 2019.

Other tax credits are presented in the section "Other accounts receivable, net" of the consolidated statement of financial position.

- (g) The sworn declarations on the income tax and the general sales tax for the years 2015 to 2019 are pending inspection by the Tax Authority in Peru. During the 2017 and 2016 periods, the 2009 and 2010 tax periods for income tax were audited.

The tax authorities have the power to review and, if applicable, correct the taxes calculated by the Company and its Subsidiary. The sworn declarations of the income tax and of the general sales tax of the Group for the years 2015 to 2019 are subject to inspection by the Tax Administration.

The sworn declarations of the income tax and the general sales tax of its Subsidiaries are subject to verification by the Tax Administration.

These subsidiaries are:

	<u>Period</u>
Servicios Globales de Telecomunicaciones S.A.C.	2015 to 2019
Telefónica Multimedia S.A.C.	2015 to January 2018 (*)
Star Global Com S.A.C.	2015 to January 2018 (*)

(*) Date on which these companies were absorbed by the Company. See note 1.3.b

Due to the possible interpretations that the tax authorities may hand down on the current legal norms and under the application of IFRIC 23, the Group has determined that no additional liabilities will result. Any eventual higher tax or additional payment that could result from the fiscal reviews will be applied to the results of the fiscal year in which it is determined. However, in the opinion of the Group's Management and its legal advisors, any possible additional tax settlement will not be significant for the consolidated financial statements as at December 31, 2019 and 2018.

- (h) As at December 31, 2019 and 2018, the "Other accounts payable" item included other taxes for approximately S/ 43,736,000 and S/ 27,725,000 respectively.

In accordance with Supreme Decree 013-93-TCC, which approves the Consolidated Text of the Telecommunications Law, and its Regulations, approved by Supreme Decree No.020-2007-MTC, the Company and its Subsidiaries, in their capacity as concessionaires of telecommunications services, must pay the following fees and charges:

<u>Item</u>	<u>Beneficiary</u>	<u>%</u>	<u>Calculation basis</u>
Special law for the Fund for Telecommunications Investments (FITEL) and telephony services	MTC	1.0	Income billed and received for carrier
Contributions for supervision services	OSIPTEL	0.5	Revenue billed and received for different services of telecommunications.
Commercial exploitation rate of Service	MTC	0.5	Services subject to concession and/or authorization.

The amount recorded as an expense for these items amounted to approximately S/ 105,518,000 and S/ 119,600,000 for the six-month periods ended December 31, 2019 and 2018, respectively, and are included in the "General and administrative expenses" section of the consolidated income statement. See note 28(a).

Likewise, the aforementioned instruments create an annual fee for the use of radioelectric spectrum.

- (e) Regulatory framework - Amendments to the Income Tax Law -

During 2018, Legislative Decrees 1422, 1423, 1424 and 1425 were issued, effective as of January 1, 2019, which include, among other modifications, the incorporation of concepts and / or definitions of "non-cooperating country or territory" and "preferential tax regime", "permanent establishment", "indirect disposal" of shares, as well as the following, which are most significant:

- *Transfer pricing:*

The scope of application of the Transfer Pricing regulations was extended to transactions carried out from, to or through non-cooperating countries or territories or subjects whose income or earnings receive preferential tax treatment.

- *Accrual:*

A legal definition of accrual was established for the recognition of income and expenses for purposes of Income Tax, according to which third-category income is understood to be accrued when substantial events generating the income have occurred and the right to it is not subject to a suspension.

- *Restriction on deductibility of financial expenses:*

New rules for the deductibility of interests were incorporated, and for the applicability of limits for loans granted by related parties, as well as to loans granted by parties not linked economically, indicating terms for debts constituted or renewed until 09/13/2018, from

09/14/2018 and as of 01/01/2019. For those constituted or renewed as at 01.01.2021, a new limit for the deduction of net interest (interest expense less taxable interest) that exceeds 30% of EBITDA (net income after compensating losses plus net interest, depreciation and amortization) from the previous year. The foregoing may be carried forward to the next immediate 4 years.

- *Derivative financial instruments:*

It was established that the Derivative Financial Instruments, considered as an exclusively underlying element, the exchange rate of a foreign currency, the profit and losses are imputed at the close of each taxable year even when the expiration date of the contract corresponds to a subsequent year.

- *General Anti-elusive Clause (Rule XVI):*

A special procedure has been established for the application of Rule XVI, according to which SUNAT may apply the provisions of the second to fifth paragraphs of Rule XVI within the framework of a final audit, provided that the favorable opinion is previously available from a Review Committee composed of three (3) SUNAT officials. Likewise, the Board's obligation to approve, ratify or modify the acts, situations and economic relations to be carried out (or already carried out) within the framework of a "fiscal planning" has been established.

Finally, a new assumption of joint and several liability is established for the legal representatives of the tax debtor when it is subject to the application of Standard XVI, provided that such representatives have collaborated with the design or approval or execution of acts or situations or economic relations foreseen in the mentioned norm.

Additionally, on August 2, 2018, Legislative Decree 1369, in force as of January 1, 2019, was issued and modified the Single Ordered Text of the Law of the Income Tax, as approved by Supreme Decree No. 179 2004 EF, in relation to the following items:

- *Transfer pricing:*

It states that the benefit test is applicable in determining the market value of the services to the taxpayer by its related parties.

- *Withholdings in operations with non-domiciled subjects:*

The obligation to pay the Tax Administration the amount equivalent to the withholding in the case of taxpayers who account royalties, remuneration for services, technical assistance, assignment in use or others of a similar nature as expenses or costs, in favor of non-domiciled subjects.

- *Deduction of expenses for operations with non-domiciled subjects:*

It was established that royalties, remuneration for services, technical assistance, assignment in use or others of a similar nature in favor of non-domiciled beneficiaries, may be deducted as cost or expense in the taxable year to which they correspond when they have been paid or credited within the period established by the Regulation for the presentation of the affidavit corresponding to said fiscal year.

25 EQUITY

(a) Issued capital -

As at December 31, 2019 and 2018, the capital issued by Telefónica del Perú S.A.A. was comprised of 3,344,363,158 common shares, fully subscribed and paid, at a nominal value of S/ 0.86 each. See note 32.

The capital structure issued as at December 31, 2019 and 2018, is composed in percentages of the following share classes:

	<u>2019</u>	<u>2018</u>
	%	%
Class B		
Telefónica Latinoamérica Holding S.L.	50.224	50.224
Latin America Cellular Holding B.V.	48.349	48.349
Other minor shareholders	1.421	1.421
Class C	<u>0.006</u>	<u>0.006</u>
	<u>100.000</u>	<u>100.000</u>

The class "B" shares, choose as many directors as required to complete the number of members set by the General Shareholders' Meeting for each term, considering the director that, where appropriate, has the task of designating the shareholders for class "C".

Furthermore, class "C" shares, which correspond to Telefónica del Perú S.A.A. employees, elect one (1) director, provided that they have reached an equity ratio of not less than 3 percent of the subscribed capital. If they do not reach this percentage by the time of the election, one more director of class "B" will be elected, thus completing the required number of members of the Board.

(b) Issue premiums -

These correspond to the incorporation resulting from the merger by the absorption of Telefónica Móviles Perú Holding S.A.A. undertaken on December 31, 2008, as well as the higher value paid over the nominal value in the acquisition of the own shares.

(c) Other capital reserves -

This is composed of the legal reserve, as provided by the General Corporation Law, for which it is required that a minimum of 10 percent of the distributable profit of each year, net of income tax, be transferred to a legal reserve until it is equal to 20 percent of the capital. The legal reserve can compensate for losses or it can be capitalized, in both cases there is a requirement to replace it.

The legal reserve as at December 31, 2019 and 2018, amounted to S/ 576,453,000.

d) Other equity reserves -

These correspond mainly to the net of the profits and losses due to changes in the estimated market value of the derivative financial instruments of cash flow hedges. The change in value is initially reflected in equity, and subsequently affects the profit and loss statement as per how it is influenced by the underlying hedge. During the years 2019 and 2018 the unrealized (loss) profit generated by the valuation of hedging derivatives amounted to S/ 85,000 and S/ 8,156,000, respectively. The net (loss) / profit of the tax effect amounted to S/ 61,000 (S/ 5,750,000 for the year 2018). See notes 17.2(e) and 20(d).

26 FIXED BUSINESS INCOME

The table below presents the breakdown of the item:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Services	3,046,414	3,069,043
Datas + IT	647,105	605,903
Warehouse	237,416	179,569
Equipment	92,369	78,890
Other	96,256	142,417
Total	<u>4,119,560</u>	<u>4,075,822</u>

27 MOBILE BUSINESS INCOME

The table below presents the breakdown of the item:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Postpaid	1,727,216	1,736,757
Terminals	1,171,302	1,124,064
Prepaid	609,063	731,940
Wholesale	181,033	321,536
Other	71,606	112,018
Total	<u>3,760,220</u>	<u>4,026,315</u>

28 GENERAL AND ADMINISTRATIVE EXPENSES

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Services provided by third parties (c)	3,721,853	4,094,392
Taxes and royalties (b)	225,629	229,608
Provision for doubtful accounts and for impairment of inventories, notes 7(d), 8(f) and 10(c), net of recoveries	564,136	368,556
Fee for brand use and transfer of management capacity, note 23(a)	7,546	139,374
Miscellaneous management charges	<u>23,018</u>	<u>22,547</u>
Total	<u>4,542,182</u>	<u>4,854,477</u>

(b) The item "Taxes and royalties" corresponds mainly to payments to OSIPTEL and MTC, note 24(h).

(c) Third party services include:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Fees, commissions and services	1,707,847	1,753,347
Television signals and circuits	626,677	602,466
Maintenance and repair	385,929	357,411
Interconnection and correspondent expenses	250,704	352,559
Capacity Services	167,087	213,499
Basic services	129,924	123,506
Advertising	118,036	174,978
Transport and storage	49,181	57,286
Value-added services	41,869	54,509
Rentals, note 2.3(a)	38,782	213,278
Roaming expenses	19,215	74,204
Other	<u>186,602</u>	<u>174,204</u>
Total	<u><u>3,721,853</u></u>	<u><u>4,094,392</u></u>

29 PERSONNEL EXPENSES

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Remuneration	612,694	622,206
Restructuring expenses, note 20(b)	362,954	146,878
Safety and social security	72,532	72,423
Compensation for service time	44,671	47,779
Employee share	35,486	5,543
Plant construction payroll capitalization	(<u>71,007</u>)	(<u>79,274</u>)
Total	<u><u>1,057,330</u></u>	<u><u>815,555</u></u>

(b) The Group had 4,468 employees as at December 31, 2019 (5,606 as at December 31, 2018).

30 OTHER OPERATING INCOME AND EXPENSES

(a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Other operating income		
Income from disposal of assets (c), (d) and (e)	261,839	55,113
Government grants, notes 8(d) and 22(b)	30,628	25,365
Reimbursement of claims	8,281	26,648
Other	<u>31,494</u>	<u>11,913</u>
	<u><u>332,242</u></u>	<u><u>119,039</u></u>
Other operating expenses		
Other provisions (b)	(30,509)	(12,829)
Others	(<u>12,201</u>)	(<u>15,745</u>)
	<u><u>(42,710)</u></u>	<u><u>(28,574)</u></u>

(b) The other provisions correspond to those made by the Group in accordance with the practice described in note 2.20, based on its best estimate of the disbursement that will be required to settle the obligations at the date of the consolidated statement of financial position.

- (c) As at December 31, 2019 and 2018, asset sales were generated, creating a net profit; the composition of which is detailed below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Net profit from disposal of assets (d) and (e)		
Income from sale of assets	586,843	64,170
Net cost of assets sold	(325,004)	(9,057)
	<u>261,839</u>	<u>55,113</u>

- (d) In 2019, contracts were signed for the transfer of ownership of up to 944 towers in favor of Telxius Torres Peru for S/ 376,843,000, plus IGV. In order to safeguard the continuity of telecommunications services, a contract for the usufruct of spaces in the same towers for a period of 10 years was signed, for which the Group must pay rent to Telxius.

As at December 31, 2019, the Group recognized S/ 370,456,000 as income since the buyer reserves the right to accept part of the towers for a period of 6 months and the net profit of S/ 139,500,000 (which includes a loss of S/ 153,993,000 for loss of right of use under IFRS 16). The aforementioned additionally generates asset for rights of use amounting to S/ 62,844,000, a financial debt for the total income until the end of the term of S/ 216,832,000. See notes 13(a), 17.3(c) and 21(d).

- (e) In July 2019, the sale in Peru was completed, which was framed in a global initiative for the sale of the Data Center business for EUR 27,376,000 equivalent to S/ 105,179,000, and in which the assets related to this line of business were included. The net profit of this operation was S/ 44,834,000; See notes 13(a) and 16 (d).

31 INCOME AND FINANCIAL EXPENSES

- (a) The breakdown of the item is presented below:

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Financial income		
Interest on accounts receivable	45,823	29,717
Interest on term deposits	9,825	2,718
Other	246	5,541
	<u>55,894</u>	<u>37,976</u>
Financial expenses		
Interest on bonds and commercial papers	(181,453)	(87,046)
Lease interests	(40,744)	-
Interest on other debts	(27,779)	(92,339)
Loss from financial instruments for interest rate hedging	(9,309)	(9,022)
Other	(58,060)	(3,733)
	<u>(317,345)</u>	<u>(192,140)</u>
Net exchange differences		
Net gain / (loss) due to net exchange differences	24,128	(20,339)
Net (loss)/profit from exchange differences related to derivative financial instruments	(22,772)	23,684
	<u>1,356</u>	<u>3,345</u>
	<u>55,894</u>	<u>37,976</u>

32 LOSS PER SHARE

- (a) Earnings per basic and diluted share is calculated by dividing the net profit of the corresponding period to common shareholders by the weighted average of the number of ordinary shares outstanding at the date of the consolidated statement of financial position:

	<u>Shares outstanding</u>	<u>Days of validity during the period</u>	<u>Average weighted shares</u>
2018 Fiscal Year			
Balance as at January 1, 2018	<u>3,344,363,158</u>	360	<u>3,344,363,158</u>
Balance as at December 31, 2018	<u>3,344,363,158</u>		<u>3,344,363,158</u>
2019 Fiscal year			
Balance as at January 1, 2019	<u>3,344,363,158</u>	360	<u>3,344,363,158</u>
Balance as at December 31, 2019	<u>3,344,363,158</u>		<u>3,344,363,158</u>

- (b) The calculation of the loss per basic and diluted share of the parent for the years ended December 31, 2019 and 2018, is presented below:

<u>2019</u>				<u>2018</u>	
<u>Loss (numerator)</u>	<u>Number of shares (denominator)</u>	<u>Loss per share</u>	<u>Loss (numerator)</u>	<u>Number of shares (denominator)</u>	<u>Loss per share</u>
<u>S / S / S / S /</u>					
<u>(1,137,157,000)</u>	<u>3,344,363,158</u>	<u>(0.340022)</u>	<u>(410,165,000)</u>	<u>3,344,363,158</u>	<u>(0.122644)</u>

33 COMMITMENTS AND CONTINGENCIES

- (a) Commitments -

Guarantee letters

The Group maintains letters of guarantee obtained for its normal commercial activity and guarantees for the different processes of awarding tenders in concessions and spectra with third parties. As at December 31, 2019, these bond letters amount to approximately S/ 1,766,223,000 and US \$ 93,272,000 (S/ 1,733,853,000 and US \$ 89,178,000 as at December 31, 2018).

Lines of credit

Up until August 15, 2019, the Group held a committed credit line up to S/ 256,000,000 with Banco BBVA Perú and Banco de Crédito del Perú S.A., up to the amount of S/ 170,000,000 in the case of Banco BBVA Peru at the annual compensatory interest rate of 4.55 percent, and S/ 86,000,000 in the case of Banco de Crédito del Perú S.A. at the compensatory interest rate of 4.65 percent per year; within 6 months of disbursement.

Commitments for operating leases - Group as lessee -

The Group, as a lessee, signed contracts with third parties. The contracts related mainly to leases of infrastructure, circuits and spaces. There are lease commitments, including for a duration of up to 10 years. See notes 2.30, 15 and 18.

The future minimum payments as per operating leases that cannot be canceled as at December 31, 2019 and 2018, are as follows (for 2019, they correspond to leases of less than one year and low-value amounts that are not recognized as part of the implementation of IFRS 16):

	<u>2019</u> <u>S/000</u>	<u>2018</u> <u>S/000</u>
Less than one year	11,136	117,747
Between one year and less than 3 years	8,545	228,766
Over 3 years and under 5 years	-	197,437
Over 5 years	-	<u>213,913</u>
	<u>19,681</u>	<u>757,863</u>

(b) Contingencies -

In the normal course of its operations, the Group has been subject to various tax, civil, labor, administrative, regulatory and customs claims, which are recorded and disclosed in accordance with International Financial Reporting Standards. See note 2.20.

With regard to tax claims, the National Superintendence of Customs and Tax Administration (SUNAT), in the course of its audit activities for the years 1998 to 2010, has notified the Company of various resolutions concerning: (I) Income Tax, (II) General Sales Tax, and (III) Income Tax withholdings of non-residents.

In certain cases, the Company has decided to appeal particular decisions made by SUNAT and the Tax Court (TF). In other cases, the Company has proceeded to pay the amounts for those defined.

Insofar as:

i. Income tax:

(a) Fiscal year 1998 -

On July 21, 2011, the TF, by means of Resolution No.11450-5-2011, issued a pronouncement for the 1998 financial year.

SUNAT, for its part, in compliance with the aforementioned Resolution of the TF, dated October 3, 2011, notified the Company of Intendancy Resolution No. 0150150001023, which considered the amount of S/ 69,386,327 in favor of the Company.

Against this, the Company filed an appeal before the Tax Court because it did not agree with the balance in favor determined by SUNAT. The Tax Court hearing the aforementioned appeal and by means of Resolution No. 974-5-2012: (1) revoked the modification for S/ 252,989,493 for exchange differences, considering that this is an accounting result to which the principle of causality is not applicable; (2) ordered SUNAT, regarding the confirmed amounts, to evaluate the effect of the exchange profits in order to obtain a net result; (3) ordered SUNAT to carry out a new determination of the doubtful collection provision (DCP), insofar as there are cases that have not been validated by SUNAT but do correspond to valid collection procedures; and (4) it endorsed that "under the door" notifications can be considered as collection efforts.

As per the above-mentioned resolution, SUNAT, on June 20, 2012, notified the Company via Resolution No. 0150150001100. When said Resolution was not found to comply with the law, on July 11, 2012, the Company filed an appeal, which was resolved by Tax Court Resolution No. 18121-5-2012 (notified on November 2, 2012). The Tax Court ruled that SUNAT could not ignore the credit for donations in the determination of the Tax.

On November 5, 2012, the Company was notified with Intendancy Resolution No. 0150150001152 through which SUNAT, in compliance with the Tax Court Resolution mentioned in the previous paragraph, determined a balance for the 1998 fiscal year of S/ 137,706,421. As such, the administrative proceedings for this file was terminated.

Notwithstanding the foregoing, on October 10, 2011, the Company filed a contentious-administrative claim against Tax Court Resolution No. 11450-5-2011, by means of which it requests the partial nullity of said Resolution in those cases in which it confirms the modifications for: (i) DCP; and (ii) receipts for leases (TPI). On March 22, 2013, the Company was notified with the first instance ruling that in part upheld the Company's claim based on the objections of: (i) DCP and (ii) TPI. The judgment of first instance was partially confirmed by the Superior Chamber. Said sentence was declared void by the Supreme Court at the end of the DCP and definitively and favorably confirmed the Company of the challenge to the TPI.

On July 31, 2019, the Company was notified with the new hearing ruling that declared the DCP objection founded, only insofar as the telephone receipts, and unfounded regarding the other matters. On August 16 and 18, 2019, the parties filed an appeal against said judgment. On September 20, 2019, the file was sent to the Supreme Court. During the course of the aforementioned judicial process, the Company obtained a partial precautionary measure regarding the challenge by the TPI. In response to the judgment issued on March 22 and integrated on April 2, 2013, the Company requested two extensions of the terms of the precautionary measure so that it includes the challenge of the DCP, both of which were rejected by the Court. On February 20, 2015, we again requested a precautionary measure regarding the challenge of DCP, which was rejected twice by the Court. Appeal was filed and the Chamber, by means of Resolution No. 16, October 29, 2015, revoked the decision of first instance, granting the extension of injunction and ordering the judge to determine the amount of the injunction bond.

It should be noted that, on January 16, 2020, the last update of the Bond Letter was presented for the sum of S/ 329,440,798, corresponding to the period 2020-2021, pending its concession.

Likewise, the Company considered that its right to an effective precautionary guardianship was violated and proceeded to initiate an amparo process that questions the Court's action when rejecting the injunction and the non-application of article 159 of the Tax Code regarding the updating of the Letter of Deposit, which has been declared inadmissible in the first and second instance, for which Constitutional Grievance was filed. The same occurred on October 15, 2018, when the Second Chamber of the Constitutional Court declared it inadmissible.

The challenge of TPI has been resolved favorably and definitively in favor of the Company. In relation to the DCP, in the opinion of Management and its legal advisors there are legal arguments to consider that the contentious administrative process could be definitively adjudicated in favorable terms for the Company. As a result, any contingency should be classified as remote. If so, this process will not have a significant impact on the Company's consolidated financial statements.

On August 7, 2012, the Company was notified of a contentious administrative complaint filed by SUNAT requesting partial nullity of TF No. 11450-5-2011, as ruling in favor of the company, the Court permitted the revocation of deductions for the account for exceptional expenses. On October 16, 2015, the claim was declared unfounded, which was declared void by the Superior Chamber. By means of Resolution No. 47, the court declared the claim founded. This judgment was confirmed by the Superior Chamber on October 3. On April 24, 2019, the Supreme Court resolution declared the appeal filed by TDP inadmissible, thus confirming the judgment. On August 9, 2019, compliance to RTF No. 6304-1-2019 was notified. On December 16, 2019, the Court considered the judgment executed and the process concluded, ordering the final filing of the judgment.

Therefore, the Tax Court's criterion regarding the compensation of exceptional expenses (purchase option), which was favorable to the interests of the Company, has changed to being

probable, to the extent that the Supreme Court declared the appeal filed by the company as inadmissible; and, consequently, declared claim made by SUNAT to be well founded.

Thus, on November 11, 2019, we were notified with Resolution of Intent No. 0150160000145, by means of which the provisions of the said resolution were complied with. SUNAT subsequently proceeded to rectify the balance in favor of the Income Tax for the year 1998.

Furthermore, on May 14, 2013, the Company was notified with a contentious administrative claim filed by SUNAT requesting the partial nullity of RTF No. 974-5-2012, as ruling in favor of the Company, the Resolution permitted the revocation of compensation for the exchange difference of different accounts. The main argument is that the RTF has determined that all exchange differences are computed for the determination of net income, in contravention of Article 61 of the Income Tax Law that establishes that it will only be computed in the manner indicated above when dealing with taxable activities. On July 24, 2013, the derogation was declared unfounded and the process was declared rectified. The judgment of first instance declared the claim unfounded. The Superior Chamber confirmed the judgment of first instance, favorable to the interests of the Company. On January 14, 2020, the votes were announced. They generate discord to the extent that 3 supreme judges declared the cassation of SUNAT unfounded, 1 judge declared nullity and 1 judge voted to declare the cassation founded, pending the designation of the deciding judge and audience programming.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

(b) Fiscal Year 1999 -

The TF, by means of RTF No. 16603-4-2010, notified on December 23, 2010, finalized the administrative procedure corresponding to the aforementioned fiscal year by declaring the nullity of all the proceedings by SUNAT in relation to the same, and furthermore, allowed the Company to invoke its statute of limitations. In this regard, on April 4, 2012, the Company requested the statute of limitations for the aforementioned fiscal year. SUNAT, by means of Resolution No. 011-020-0000323/SUNAT, notified on May 4, 2012, declared a statute of limitations for the fiscal year in question.

In the opinion of the Management, and its legal advisors, there are legal arguments to understand that statute of limitations for the aforementioned fiscal year impede SUNAT undertaking a new determination. As such, the balance determined by the Company in 1999 should be that which SUNAT assign to the year 2000 fiscal year.

(c) Fiscal years 2000 and 2001 -

The TF, by means of RTF No. 17044-8-2010, notified on December 29, 2010 (and later clarified by RTF No. 1853-8-2011, notified on February 11, 2011) finalized the administrative procedure corresponding to the aforementioned fiscal years.

As these resolutions were not in accordance with the law, the Company filed (on March 21, 2011) a contentious-administrative action against SUNAT and the Tax Court, requesting partial nullity of Tax Court Resolution No. 17044-8-2010, Tax Court Resolution No. 17133-8-2010, and Tax Court Resolution No. 01853-8-2011, insofar as the challenges to: (1) financial charges - FC, (2) DCP, (3) TPI, (4) disposal of assets by means of the transfer of equity to Telefónica Móviles S.A.C. - Reorganization- and, (5) the costs of fixed assets deducted off the books as an expense (Over Head) made against the Company. In addition, the Company requested the partial nullity of Tax Court Resolution No. 17133-8-2010, insofar as the compensation of interests corresponding to the payments on account for the year 2000 fiscal year.

On March 20, 2013, the Company was notified with the judgment of the first instance that partially upheld the Company's claim regarding the modifications of: (i) CF; (ii) DCP; and (iii) TPI, on the basis of the Company's claim of full jurisdiction. In the same manner, the objections to (i)

Reorganization and (ii) Over Head, were declared unfounded. Said resolution was partially confirmed by the Superior Chamber regarding the challenges on the deduction for financial charges and provision of doubtful collection, and partially confirmed the challenge of documents that do not substantiate expenses. Regarding the challenge referred to the DCP, the Superior Court validated the management of only that regarding the telephone receipt and ordered that all the receipts sent be reviewed again. Furthermore, it confirmed the aspects that did not cover our challenges for the disposal of assets by transferring assets to Telefónica Móviles S.A.C. – Reorganization- and fixed asset costs deducted extra accountably as expenses –Overhead. All parties of the process filed appeals, which have been admitted and declared appropriate.

On July 11, 2019, the votes of the supreme judges were notified, which protected 3 challenges in favor of SUNAT and the Tax Court (Over Head, Simple Reorganization and Financial Charges), the TPI challenge was confirmed in favor of TDP and produced discord regarding the challenge of the DCP (3-2). On January 14, 2020, the deciding judge voted to support the vote of those who opted because the judgment of the Superior Court is declared null and that a new ruling be issued regarding said objection. On January 23, 2020, the file was submitted to the Superior Court for the issuance of a new judgment.

During the aforementioned proceedings, the Company obtained a partial precautionary measure pursuant to which the suspension of the effects of the disputed resolutions was ordered with respect to the following objections: (1) FC, (2) DCP and, (3) TPI. On November 12, 2014, the rejection of the oppositions presented by SUNAT and the Tax Court was confirmed.

By means of Resolution No. 31, dated November 17, 2015, SUNAT was required to specify the updated amount of the tax debt. Subsequently, by means of Resolution No. 43 of January 18, 2016, the Company was required to submit an injunction bond for 60 percent of the debt, which was performed on January 25, 2016. The bond was thus considered renewed and adequate. On May 8, 2019, the last update of the Bond Letter was renewed for the sum of S/ 675,047,236, corresponding to the 2019-2020 period.

Regarding the modifications to FC, Simple Reorganization and Over Head, the Company has reassessed its contingencies, based on the ruling issued by the Supreme Court, so the qualification of the process has been adjusted to probable. Regarding the deduction of the TPI, the rating of the challenge is maintained as remote, to the extent that it has been resolved on favorable terms for the Company. Regarding the challenge of the DCP, the rating of the proceedings is also maintained as remote for the interests of the Company.

As per RTF No. 17044-8-2010 and RTF No. 1853-8-2011, SUNAT, dated October 4, 2011, communicated Resolution of Intendancy No. 0150150001030 according to which it determined an alleged tax debt amounting to S/ 2,379,451,375.

On October 24, 2011, the Company filed an appeal before Tax Court against the aforementioned Intendancy Resolution. SUNAT conditioned the admissibility of the same appeal on the previous payment by the Company for S/ 1,627,950,109. Subsequently, SUNAT, due to the precautionary measure obtained by the Company in the contentious administrative proceeding initiated against RTF No. 17044-8-2010, reduced the amount of the alleged debt to a total of S/ 619,814,185.

The Company, on November 30, 2011, filed a complaint before the Tax Court against the admissibility requirement that SUNAT had required to admit the appeal mentioned in the preceding paragraph. While the appeal was pending, SUNAT notified the Company of a Coercive Execution Resolution amounting to S/ 134,353,008.

The Company (without prejudicing the payment of S/ 134,353,008 under protest) appealed to the Tax Court (in complaint) regarding the aforementioned Coercive Execution Resolution because it understood that the request made by SUNAT lacked legal basis.

On January 27, 2012, the Complaint Appeal filed by the Company was resolved (in favor of the Company) with the Tax Court stating that there was no coercively enforceable debt.

On February 22, 2012, adjudicating the appeal filed against the Resolution of Intendancy No. 0150150001030, the Tax court communicated Resolution No. 01973-8-2012 by which it ordered SUNAT to issue a new Intendancy Resolution.

On April 1, 2013, the Company was notified with Intendancy Resolution No. 0150150001203 (replaced by a Resolution of the same number notified on April 3, 2013, which in turn was modified by Resolution of Intendancy No. 0150190000041 notified on April 4, 2013) by means of which SUNAT complies with the provisions of the Tax Court. Considering that the aforementioned Resolution does not comply with the provisions of the Tax Court, on April 19, 2013, the Company filed an appeal, which was adjudicated by means of RTF No. 13365-3-2013 and notified on September 23, 2013. In this adjudication, the Tax Court confirmed the declaration on the Intendancy issued. On October 7, 2013, the Company submitted a request for clarification, considering that it is not possible to determine the Income Tax for the year 2000; while Chamber 11 of the Tax Court still has a case determination pending related to payments on account of the year 2000.

On November 6, 2013, the Company was notified with Tax Court Resolution 15989-3-2013, which confirms that it is not possible to determine Income Tax for the year 2000 until the process related to the payments on account finalizes. On July 1, 2015, the Company was notified with Intendancy Resolution No. 0150150001364 according to which SUNAT complied with the provisions of the Tax Court. Demonstrating discord with that stated in the aforementioned resolution, on July 22, 2015, SUNAT filed an appeal, which was adjudicated by Resolution No. 1323-3-2017, which provides that, in order to effect the settlement of this fiscal year, such payment can proceed after resolving the case regarding payments on account and in the cases of the return of payments made by coercive collection.

Notwithstanding the aforementioned, it is important to specify that after the issuance of Intendancy Resolution No. 0150150001203, SUNAT communicated Coactive Execution Resolution No. 011-006-0044540, by means of which it demands the payment of S/ 150,842,142 related to the fine of the Income Tax for the year 2000. The Company (without prejudicing the payment of S/ 150,842,142 under protest) appealed to the Tax Court (in complaint) regarding the aforementioned Coercive Execution Resolution as the SUNAT request lacked legal basis.

On January 6, 2014, the Company was notified of Tax Court Resolution 18209-Q-2013, which upheld the submitted Complaint Appeal. On May 12, 2014, SUNAT filed a contentious administrative lawsuit against the aforementioned Tax Court Resolution, which was declared inadmissible and confirmed by the Superior Chamber, which is why SUNAT filed an appeal. On June 14, 2019, we were notified with the supreme court ruling that upheld the appeal filed by SUNAT, and as a result, annulled the second instance decision that declared the claim inadmissible, ordering the judge to issue a new ruling. Oral Submission date is scheduled in the first instance for October 15, 2020.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

On February 24, 2014, SUNAT communicated Coactive Resolution No. 0110070101757 by which the coercive collection procedure was revoked, although without ruling on the payment made by the Company. On April 23, 2014, two briefs were submitted to the coercive executor requesting the return of S/ 134,353,008 (paid in January 2012) and S/ 150,842,142 (paid in November and December 2013). On May 8, 2014, the coercive executor notified Coactive Resolutions No. 0110070109273 and No. 0110070109274 whereby the same forwarded the files to the Supervision Department of SUNAT in order to evaluate and adjudicate on the request made by the Company. On June 17, 2014, the Company submitted two Complaint Appeals before the Tax Court in order that the Court ordered the coercive executor to return the amounts paid. On July 3, 2014, the Tax Court communicated Tax Court Resolution 03249-Q-2014, in which it declared the complaints filed to be baseless, stating that according to the law, SUNAT, by means of Coactive Resolutions No. 0110070109273 and No. 0110070109274, had granted them the processing of reimbursement requests and had sent them to the competent area to issue the corresponding ruling.

On July 31, 2014, the Company was notified with Intendancy Resolutions No. 012-180-0007031, No. 012-180-0007032 and No. 012-180-0007038 (related to the request for the return of the S/ 134,353,008, paid in January 2012) and the Intendancy Resolution No. 012-180-007033 (linked to the request for refund of the S/ 150,842,142, paid in November and December 2013), by means of which SUNAT declared the Company's requests as inadmissible.

On August 27, 2014, the Company filed the corresponding claim appeals. On January 30, 2015, the Tax Administration adjudicated on the aforementioned appeals, stating that the reimbursement of the amounts requested is inadmissible. As we did not agree with the adjudication, on February 19, 2015, appeals were filed. On May 9 and June 25, 2019, we were notified of Tax Court Resolutions that provide for the revocation of the appealed intendancy resolutions (as indicated in the previous paragraph) and order SUNAT to validate, at the time of final settlement, if the return of the amounts paid is applicable.

As Tax Court Resolution No. 13365-3-2013 was not in accordance with the law, on November 19, 2013 the Company filed a contentious-administrative claim against SUNAT and the Tax Court, requesting the partial nullity of Tax Court Resolution No. 13365-3-2013 to confirm the modifications for: (1) the balance in favor of previous fiscal years and, (2) the sale of the Nortel analog network. On March 23, 2015, a first instance judgment was issued that declared the claim unfounded. This ruling was confirmed by the Superior Chamber (3 votes against, and 1 in favor). On July 24, 2018, the hearing took place in the Supreme Court, and the vote left pending.

Despite the result obtained in the first and second instance, as well as the result of the analysis carried out, ratified by the legal opinion of the external advisors overseeing the process, we consider that the contingency should be classified as reasonably remote.

(d) Protective action derived from IR 2000-2001 -

On July 3, 2013, the Company filed a request for defense, by means of which the Company requested, as a consequence of the violation of its constitutional rights to: (i) have procedures without delay; (ii) proscription of the abuse of right; and (iii) non-confiscation of taxes, a finding of inapplicability to the specific case of Article 33 of the Tax Code, which regulates the arrears interest of unpaid taxes.

Indeed, SUNAT by Intendency Resolution No. 0150190000041 decided to continue the collection of Determination Resolutions No. 0120030008377, 0120030008382, 0120030008383, 0120030008378, 0120030008388, 0120030008380, 0120030008385, 0120030008312, 0120030008386, 0120030008379, 0120030008387, 0120030008384 and 0120030008381, and Fine Resolutions No. 0120020008152, 0120020008160, 0120020008157, 0120020008161, 0120020008150, 0120020008154, 0120020008158, 0120020008162, 0120020008151, 0120020008155 and 0120020008159, for the sum of S/ 2,163,333,920 (updated as of April 1, 2013). This amount includes 73 percent interest and capitalized interest (under the application of Article 33 of the Tax Code) of which a percentage corresponds to interest accrued within the legal term and other interest accrued in the time lapse in excess of the adjudication's legal term. By means of the amparo the Company is questioning the interest accrued during the time in which the Tax Court has exceeded the deadline for resolving the abovementioned RI appeal, which continues to increase.

On December 26, 2013, the Court declared the submissions as baseless, so both the Tax Court and SUNAT appealed the decision. On April 7, 2014, the claim was declared inadmissible because it considers that there is an equally satisfactory way to address the question, referring to the processes in which the Company questions the IR 2000 challenges -2001. On May 22, 2015, the Chamber declared the ruling null and ordered the Court to issue a new ruling on the submission of failure to exhaust the administrative remedy. On October 12, 2015, the exception of lack of exhaustion of the administrative remedy was declared unfounded. On December 14, 2015, the court declared the claim inadmissible. Said judgment was revoked by the Superior Chamber declaring the exception founded and everything undertaken as null. In view of this, a constitutional complaint was filed on August 29, 2016. On January 23, 2017, the case was referred to the First Chamber of the Constitutional Court. To date, the Chamber is still yet to schedule a date for the qualification hearing.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest, the likelihood of success of this process is probable, and consequently, the qualification of the contingency is remote.

(e) Payments on Account of 2000:

The Tax Court by means of Tax Court Resolution No. 17133-8-2010, notified on December 30, 2010 (and later clarified by Tax Court Resolution No. 16430-8-2011, notified on October 13, 2011) finalized the administrative procedure corresponding to Payments on account of the aforementioned fiscal year.

As per the aforementioned resolution, SUNAT, on November 17, 2011, communicated Intendancy Resolution No. 0150150001039 in which a presumed tax debt amounting to S/ 678,541,069 was quantified.

The Company, on November 28, 2011, filed an appeal before the TF against the aforementioned Intendancy Resolution. SUNAT however conditioned the admissibility of the aforementioned appeal to the prior payment (by the Company) of the amount of S/ 189,297,341.

The Company, on November 12, 2012, filed a complaint before the Tax Court against the admissibility requirement that SUNAT had required to admit the appeal mentioned in the preceding paragraph.

On June 15, 2012, the Tax Court communicated Resolution No. 06671-11-2012, expanded by Resolution No. 08037-11-2012, by means of which it adjudicated on the appeal filed by the Company, stating: (1) that it is appropriate that SUNAT re-settles the adjudications on the fines as long as they had not been revoked; (2) that SUNAT must make the determination of the debit balance in accordance with the powers and parameters established in the Tax Code, authorizing it, however, to modify the balance in favor as declared by the Company in 1999, ignoring the effects of the statutes of limitations.

On June 21, 2012, the Company requested a clarification of Resolution No. 06671-11-2012, which was resolved by the Tax Court by means of Resolution No. 10322-11-2012 which establishes: (1) that the Tax Court did not annul the fines imposed by SUNAT; and (2) that the Company is entitled to invoke the statute of limitations for the 1999 fiscal year in case SUNAT modifies the determination of the tax debt corresponding to that year.

On September 11, 2012, the Company filed a contentious administrative lawsuit against Tax Court Resolution No. 06671-11-2012, clarified by Tax Court Resolution No. 08037-11-2012, claiming that it does not know that the fines imposed on the Company were revoked through Tax Court Resolution No. 17133-8-2010, clarified by Tax Court Resolution No. 16430-8-2011. On April 6, 2015, the claim was declared unfounded. Said judgment was revoked by the Superior Chamber on April 1, 2016, declaring the claim inadmissible due to lack of interest to act from the TDP. On November 21, 2016, the qualification hearing of the cassation appeal was carried out. Said appeal was declared inadmissible on June 1, 2017. As a result, the process concluded.

On October 31, 2013, the Company requested a precautionary measure in order to void Tax Court Resolution No. 06671-11-2012. On September 3, 2014, the precautionary request was rejected for not complying with the likelihood requirement.

In the opinion of Management and its legal advisors, the alleged debt demanded by SUNAT is directly linked to the contentious-administrative process indicated in subsection (c), in which there are legal arguments to defend that said contentious-administrative proceeding could be resolved in favorable terms for the Company; consequently, any contingency must be classified as remote. If so, any favorable result derived from the aforementioned proceedings will not have a significant impact on the Group's consolidated financial statements.

On April 1, 2013, the Company received notice of Intendency Resolution No. 0150150001202 by means of which SUNAT complied with the Tax Court provisions. When considering that the aforementioned Adjudication does not comply with the provisions of the Tax Court, on April 19, 2013, the Company filed an appeal. On March 16, 2015, the Company was notified with Tax Court Resolution No. 02569-11-2015, by means of which it was adjudicated that SUNAT may modify the balance for the year 1999 despite being subject to the statute of limitations.

On June 26, 2015, the Company was notified with Intendence Resolution No. 0150150001362, by means of which SUNAT complied with the Tax Court provisions. Disagreeing with that stated in the aforementioned resolution, on July 20, 2015, an appeal was filed, which was adjudicated by means of Tax Court Resolution No. 3329-2-2017, which ordered the suspension of the administrative proceedings in response to the precautionary measure obtained, and to which we refer in the following paragraphs.

In view of the fact that Tax Court Resolution No. 02569-11-2015 was not in accordance with the law, on June 8, 2015, the Company filed a contentious-administrative action against SUNAT and the Tax Court, requesting the annulment of the aforementioned Tax Court Resolution with respect to the alleged compliance to the provisions of Tax Court Resolution No. 06671-11-2012 of May 3, 2012, regarding the income tax balance for 1999, which must be applied for payments on account of the income tax of year 2000. On October 20, 2015, in court, which declared the claim unfounded. On January 17, 2017, the judgment revoked the judgment of first instance and declared it partially founded. On July 24, 2018, the hearing took place in the Supreme Court, and the vote left pending.

In addition, on July 16, 2015, the Company filed a precautionary measure, which was declared inadmissible by the first and second instances. As the judgment is favorable to the interests of the Company, on January 31, 2017, a new innovative precautionary measure was requested, which was granted, temporarily suspending the effects of Tax Court Resolution No. 2569-11-2015. On March 1, 2019, the renewal of the letter of guarantee for S/ 39,247,200 was considered as presented. On January 13, 2020, the Court required SUNAT to update the amount of the tax debt for the period 2020-2021.

In the opinion of Management and its legal advisors there are reasonable legal arguments that the contentious-administrative process could be adjudged in favor of the Company. As a result, any contingency should be classified as remote.

Furthermore, on June 15, 2015, the Company was notified with a contentious administrative complaint filed by SUNAT, requesting the nullity of Tax Court Resolution No. 02569-11-2015, insofar as the ruling on the rounding of coefficients applicable to determine the payments on account of income tax for the year 2000. The court declared the claim unfounded and on March 23, 2017, the Chamber overturned the judgment of first instance, declaring the claim as being substantiated, which is why the Cassation Appeal was filed. On January 15, 2020, we were notified with the decision of the Supreme Court by which our appeal was founded and consequently unfounded the claim filed by SUNAT regarding the rounding of the applicable coefficients to determine payments on account of the Income Tax for the year 2000, which has resulted in a favorable and definitive process for the Company.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote. If so, any favorable result derived from the aforementioned proceedings will not have a significant impact on the Company's consolidated financial statements.

(f) Amparo action derived from the IR 2000 Account Payments -

On July 3, 2013, the Company filed a request for protection, by means of which the Company sought, as a consequence of the violation of its constitutional rights: (i) to undertake procedures without delay; (ii) the proscription of the abuse of right; and (iii) the non-confiscation of taxes, a finding of inapplicability to the specific case of Article 33 of the Tax Code, which regulates the arrears interest of unpaid taxes.

In effect, SUNAT, by means of Intendency Resolution No. 015150001202, decided to continue with the collection of Resolutions of Determination No. 012-003-0006189, 012-003-0006190, 012-0030006191, 012-003-0006193, 012-003- 0006194, 012-003-0006195, 012-003-0006196, 012-003-0006197 and Fine Resolutions No. 012-002-0006014 and 012-002-0006022 for an amount of S/ 657,405,312 that includes 91 percent interest and capitalized interest (by virtue of the application of Article 33 of the Tax Code). This increase in debt is due to the undue delay in administrative procedures, as to date the Tax Court has not adjudicated on the appeals against the Determination and Penalty Resolutions mentioned above. The administration has exceeded the legal deadlines for resolving this controversy.

By means of Resolution No. 13, the derogation for lack of exhaustion of the administrative proceeding was covered by what was declared the conclusion of the process. Said decision was appealed by TDP and on June 27, 2014, the nullity of Resolution No. 13 was declared, and the decision was revoked, declaring the exception of lack of exhaustion of the administrative proceedings without basis and ordering the process to continue. On November 12, 2014, a judgment of first instance was issued that partially declared the claim as being founded. Said judgment was revoked by the Superior Chamber and declared the Amparo Process inadmissible. A constitutional grievance appeal was presented and was granted on November 9, 2015. On January 11, 2016, the file entered the Second Chamber of the Constitutional Court. On November 11, 2019, the full hearing was held, with the vote pending.

On February 19, 2015, we requested a precautionary measure ordering the suspension of collection of late payment interest, recognized in the ruling of first instance. The said precautionary measure was rejected in the first and second instance, deeming that there is no danger in the delay. It should be noted that on October 15, 2018, the Constitutional Court declared the appeal filed by the Company against the second instance judgment as inadmissible.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest, the likelihood of success of this process is probable, and consequently, the qualification of the contingency is remote.

(g) Fiscal year 2002 -

The Tax Court, by means of Tax Court Resolution No. 04831-9-2012, notified on May 7, 2012, finalized the administrative procedure corresponding to the aforementioned fiscal year.

By means of the aforementioned Resolution, the Tax Court: (1) revoked the modification related to the exchange difference considering that this is an accounting result to which the principle of causality is not applied; (2) revoked the modification related to financial interests, and orders SUNAT to perform a new review of the documentation supporting the Cash Flow Statement, as well as third party reports submitted by the Company. In this regard, SUNAT, dated June 18, 2014, issued a request seeking information which the Company filed on September 17, 2014; (3) with respect to the DCP, confirmed a part of the modification, as it considers that the Company was obliged to present the information that supports the entire DCP even though SUNAT only required a sample; and (4) recognized as valid collection management only the termination notifications, ordering SUNAT to carry out a new review. It should be noted that, unlike what was resolved in the file for the years 2000 and 2001, the Tax Court does not recognize that the DCP that was modified in 2001, in 2002 can be deducted for being greater than 12 months. Likewise, the Tax Court confirmed the modifications related to non-business TPI expenses, unsecured credit notes, among others. SUNAT must proceed with the issuance of the corresponding Intendancy Resolution.

Notwithstanding the foregoing, on August 3, 2012 the Company filed a contentious-administrative claim against Tax Court Resolution No. 04831-9-2012 insofar as it confirms the objections for: (1) DCP; (2) undocumented expenses - submarine cable; (3) expenses unrelated to the business - judicial deposits; (4) deductions requested by the Company, and (5) TPI. The lawsuit has been admitted by the Court and both SUNAT and the Tax Court proceeded to respond. On July 7, 2015, the court declared the claim baseless, which was declared null by the Superior Chamber. On November 12, 2018, the ruling that the claim was justified on various grounds was communicated. On July 5, 2019, we were notified of the hearing verdict that upheld the judgment of first instance in an unfavorable manner for the Company regarding the deductions from the TPI, Submarine Cable and Deductions not accepted, and revoked the ruling declaring the deductions for the DCP (on telephone bills) and expenses outside the business to be baseless. Finally, it confirmed the ruling of first instance regarding the non-validation of the procedure for calculating the interest used by SUNAT between December 25, 2016 and March 15, 2017. On August 23, 2019, the file entered the Supreme Court, which is pending evaluation.

In the opinion of Management and its legal advisors, there are legal arguments that indicate that the contingency must be classified as reasonably remote with respect to the deductions for: (i) non-business expenses - judicial deposits, (ii) provision for doubtful collection and (iii) indoor public telephones is remote. Furthermore, we consider that the qualification of the contingency of the challenges referring to i) the requested deductions and ii) the expenses without supporting documentation (submarine Pan American cable), is possible.

Additionally, on November 20, 2012, the Company was notified with a contentious-administrative suit filed by SUNAT, requesting the partial nullity of Tax Court Resolution No. 04831-9-2012, insofar as revoking Intendancy Resolution No. 0150140006992, dated December 28, 2007, for the deduction of the financial burden due to the exchange difference and, as a secondary claim, that the Tax Court issues a new resolution that upholds the Intendancy Resolution. On September 18, 2014, the claim was declared unfounded. On September 23, 2015, the Superior Chamber confirmed the judgment of first instance that declared the claim unfounded. On March 27, 2019, a Supreme Court ruling was notified by means of which it was decided to declare the appeal filed by SUNAT justified, confirming the position of the TDP regarding the modification of the incentive regime and declaring the nullity of the Tax Court Resolution insofar as the difference in exchange, and providing for the issuance of a new resolution. On June 26, 2019, Tax Court Resolution compliance was communicated. On January 10, 2020, the Court considered the judgment executed and the process concluded, ordering the final filing of the judgment.

We are currently awaiting the Intendancy Resolution that complies with that indicated by the Tax Court.

The modification of the incentive regime has been adjudicated favorably for the Company. In relation to the challenge on the exchange rate, the Supreme Court declared the nullity of the Tax Court Resolution that was favorable to the interests of the Company, so the rating of the contingency must be modified to probable.

II. General sales tax -

The Company has been notified by means of the Intendancy Resolutions issued by SUNAT regarding the General Sales Tax for the years 1998, 1999, 2000 and 2001. In this regard, the Company made the payment corresponding to the determination made by SUNAT, except for the case related to the General Sales Tax of 2001 (in which the Tax Court ruled in favor of the Company). Regarding the General Sales Tax for 2002, by means of Tax Court Resolution No. 04831-9-2012, the Tax Court confirmed the modifications made for this item.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

III. Income Tax withholdings of non-residents -

SUNAT issued determinations and fines against the Company for withholding Income Tax, supposedly corresponding to revenues of non-resident companies operating a satellite. For the purposes of SUNAT, said income is revenue from Peruvian sources.

The Tax Court revoked the SUNAT rulings that declared that the claims presented by the Company were baseless and, therefore, it has rendered ineffective the determination and fine for these items. However, SUNAT has contested these decisions via legal means. Thus, to date SUNAT has filed five contentious administration claims for the years 1999 - 2000 (accumulated in a single proceeding), 2001, 2002, 2003 and 2004.

Regarding the 2002 financial year, on November 10, 2014, the judgment in the first instance was issued that declared the claim unfounded in all aspects. This decision was revoked by the Superior Chamber. On April 19, 2018, the Supreme Court notified of the ruling, declaring the appeals filed by the Company and the Ministry of Economy and Finance as baseless. On July 4, 2019, the Court considered that the administrative file was received, and it is pending to issue the resolution that provides for the compliance of the execution.

As the supreme sentence contained defects that affect the constitutional rights of the Company, an amparo petition was filed. On July 10, 2018, the claim was admitted for processing. On March 20, 2019, the nullity of the resolution declaring the Tax Court to be in contempt of court and declared

the exception to the statute of limitations made by SUNAT as baseless. On May 9, 2019, the oral submission was carried out, which is still pending the issuance of the ruling on the appeal filed by SUNAT against the resolution declaring the exception of the statute of limitations to be baseless.

It should be noted that we have a precautionary measure in place to suspend the effects of the judgment on the contentious administrative process. On January 22, 2019, the appeal presented by SUNAT was granted. The precautionary measure is still to be submitted to the Superior Chamber. On September 18, 2019, we presented the renewal of the Guarantee Letter for the period 2019-2020. On January 7, 2020, the Court renewed our Guarantee Letter for S/ 9,500,000.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo process is possible.

Regarding fiscal year 2004, on January 22, 2013, the Company received notice of the judgment issued in the first instance that declared the claim to be unfounded in all aspects. Said judgment was confirmed by a second instance. On July 20, 2018, the Supreme Court notified of the ruling by means of which the appeal filed by the tax administration to be justified. In this process, the Supreme Court has adhered to the same criteria for the 2002 financial year, and consequently qualified the provision of satellite capacity as a service provided in Peruvian territory, and therefore, it is on the onus of the provider to pay the tax and that Company withholds the same. On August 16, 2019, the compliance to the Tax Court Resolution was notified (as ordered by the Supreme Court).

Disputing the compliance of the Company to Tax Court Resolution, on November 14, 2019, a new administrative contentious process was presented. The claim is due to that the Tax Court, failed to rule on the terms of the Supreme Court, and therefore failed to rule on two arguments put forward by the Company in the administrative headquarters, thus contravening the right to due administrative procedure. On December 31, 2019, the Court admitted our claim.

As the supreme resolution contained vices that affect the constitutional rights of the Company, an amparo process was initiated. On October 12, 2018, the claim was admitted for processing. On February 8, 2019 and February 14, 2019, the Tax Court and SUNAT responded to the claim, which have been answered by the Company. On September 10, 2019, the oral submission was heard in the first instance. The decision is still pending.

On August 16, 2019, Tax Court Resolution No. 07066-2-2019 corresponding to IRND - 2004 was received. Through this resolution, the Tax Court complies with the provisions of the judicial headquarters, by means of which fifteen (15) values between Determination Resolutions and Fine Resolutions are confirmed. Furthermore, the Tax Court revoked six (6) Fine Resolutions under the argument of *reformatio in peius*.

Subsequently, payment of the amount of S/ 24,864,916.00 was made. Additionally, on October 29, 2019, we filed an appeal against Intendency Resolution No. 0150600000143, notified on October 7, 2019, through which the provisions of the Tax Court are complied with.

In the opinion of management and its legal advisors, we believe that the probability of success of both processes is possible.

Regarding the 2003 fiscal year, on January 23, 2013, the Company received notice of the judgment issued in the first instance that declared the claim to be unfounded in all aspects. Said ruling was upheld by the second instance. On February 4, 2019, notification of the ruling was received and via which in which the cassation appeal filed by the tax administration was declared justified. On June 3, 2019, the Company received notification via a Tax Court Resolution (as ordered by the Supreme Court).

On July 9, 2019, an amount of S/ 11,212,971 was canceled considering the default interest as at said date.

The Company presented a new administrative contentious process against the compliance Tax Court Resolution on June 24, 2019. The claim is due to the fact that the Tax Court failed to rule on the terms of the Supreme Court, and therefore failed to rule on two arguments put forward by the Company in the administrative headquarters, thereby contravening the right to due administrative procedure. On August 1, 2019, the claim was declared inadmissible, and the Company appealed the resolution on August 15, 2019. On October 16, 2019, the hearing of the case was carried out in the second instance and the inappropriateness of the claim was declared void. On December 4, 2019, the file entered the Court of origin, with its admission still pending.

It should be noted that, on June 26, 2019, we presented a precautionary measure in the aforementioned process aimed at suspending the effects of the resolution of the administrative contentious process. On September 10, 2019, it was rejected because the claim was declared inadmissible.

As the supreme resolution contained vices that affect the constitutional rights of the Company, an amparo process was initiated. Unlike the other two processes initiated by the Company in the periods 2002 and 2004, it incorporates and develops the arguments on the application of Legislative Decree No. 1120 and Supreme Decree No. 22-2017-MTC. On May 29, 2019, the claim was admitted for processing.

In the opinion of management and its legal advisors, we believe that the probability of success of both processes is possible.

Regarding the 1999-2000 financial year, the judgment of first instance declared the claim unfounded in all respects. This decision was confirmed in the second instance and SUNAT filed an appeal for cassation. On May 13, 2019, the discord hearing before Judge Bermejo Ríos took place. On August 28, 2019, the Company was notified with the supreme resolution that took a position against the interests of the Company. On November 14, 2019, the Tax Court issued the compliance Tax Court Resolution, which is within time restrictions to be challenged in court.

Consequently, on November 26, we made the payment of S/ 187,614,698 corresponding to the year 1999, while for the year 2000 the payment of S/ 30,913,192 was made.

As the supreme resolution contained vices that affect the constitutional rights of the Company, an amparo process was initiated. On October 28, 2019, the claim was admitted for processing.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo process is possible.

Regarding the 2001 financial year, on September 6, 2013, the abandonment of the process was declared. Said decision was appealed by SUNAT and annulled by the Chamber, returning the proceeding to the original Court. On March 31, 2016, the ruling that declared the claim as being baseless was issued. This ruling was confirmed in the second instance; so SUNAT filed a cassation appeal. On August 16, 2017, the qualification hearing was held, declaring the proceeding admissible. On November 21, 2018, the substantive hearing was held. The decision by Judge Bermejo Ríos is still pending. On November 22, 2019, the resolution that declared the appeal filed by SUNAT as substantiated was notified. To date, the file is in the Court of origin and the issuance of the execution is pending.

As the supreme resolution contained vices that affect the constitutional rights of the Company, an amparo process was initiated. Its admission is still pending.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo process is possible.

IV. General Sales Tax from 2003 to 2010 and Income Tax from 2003 to 2010 -

The Intendancy Resolutions resolving the claims presented for the years 2003 to 2010 by the Company were notified by SUNAT between 2008 and 2017. In disagreement with that adjudicated by SUNAT, appeals were filed that must be resolved by the Tax Court. On January 9, 2018, the Tax Court adjudicated on the file relating to the General Sales Tax for 2005, ordering SUNAT to make a new settlement. The same occurred with the General Sales Tax for 2004 (the ruling of the Court was notified on November 14, 2018) so we are waiting for a new settlement.

Finally, regarding Income Tax and General Sales Tax for 2003, on January 25, 2019, Tax Court Resolution 10820-4-2018 was notified, ordering SUNAT to carry out a new settlement after revoking the following modifications: i) excess depreciation for difference in computable cost, ii) amortization of training and maintenance, iii) expenses without reliable supporting documentation, iv) IR and IGV of unsecured credit notes, v) documents that do not support expenses, vi) DCP, vii) collection of interest and fines. Regarding the foregoing, on July 2, 2019, the contentious administrative claim filed by the Company was admitted for processing. On August 19, 2019, the Court considered the claim filed by the Company and the Tax Court. The scheduling of the oral submission in the first instance is still pending.

In the opinion of Management and its legal advisors, we consider that the qualification of the contingency of this process is reasonably remote.

Furthermore, on April 14, 2019, we were notified of contentious-administrative claim filed by SUNAT against Tax Court Resolution 10820-4-2018, whereby the modifications adjudicated in favor of the company were challenged: i) expenses for compensation without supporting evidence, ii) DCP, iii) amortization of intangibles without supporting evidence, iv) modification of the coefficient. On November 12, 2019, the Oral submission was carried out in the first instance, with the vote still pending.

In the opinion of Management and its legal advisors, we consider that the qualification of the contingency of this process is reasonably remote.

TDP disputes the nullity of the Tax Court Resolution No. 1858-1-2019 by which the IR No. 0150140013079 is confirmed declaring the claim made against RD Nos. 012-003-0072541 to 012-003-0072552 and RM Nos. 012-002-0028443 to 012-002-0028454 unfounded, and which were issued for the IGV from January to December 2010, and for the commission of the infraction typified by section 1 of art. 178 of the Tax Code. The nullity is based on the following arguments: i) violation of the principle of legality, ii) violation of the principle of non-retroactivity of the rules, iii) violation of the principle of legal certainty, iv) contravention of the provisions of article three of the Preliminary Title of the Tax Code and fifth article of the Preliminary Title of the Law of the General Administrative Procedure, v) violation of the principle of predictability and legitimate trust, vi) is inconsistent and contains a faulty motivation. On June 27, 2019, the claim was filed. By means of resolution No. 01, dated July 15, 2019, the claim was admitted for processing.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo process is reasonably remote.

Furthermore, the TDP disputes the nullity of the Tax Court Resolution No. 7453-4-2019, questioning the IGV of the year 2009, and challenging the following objections: (i) prescription of the period of commencement of the faculty of collection, and (ii) excess recreational expenses. On January 16, 2020, the lawsuit was filed, which is pending admission.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo process is reasonably remote.

As a result of the audits of the years 2000 to 2009 on Móviles, this has been notified by SUNAT with various resolutions for alleged omissions regarding income tax, income tax withholdings of

non-residents, withholding of income tax from fifth category and general sales tax, in the latter case, up to 2012.

In some cases, Móviles has filed claim appeals for failing to deliver the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has proceeded to pay the assessments received.

With regard to:

a) Tax on Revenue for the fiscal year 2000 -

On March 30, 2007, SUNAT issued an Intendancy Resolution adjudicating on the claim presented by Móviles for the Income Tax for the year 2000. Disagreeing with the decision, an appeal was submitted before the Tax Court.

The Tax Court notified Móviles on February 7, 2013 with Tax Court Resolution No. 20274-9-2012 and by means of which the appeal file related to the Income Tax for the year 2000 was adjudicated. This Tax Court Resolution confirmed the following modifications: (i) Financial charges; (ii) Provisions for doubtful collection; (iii) Over Head; (iv) Expenses re-invoiced by TDP; (v) Cellular Sales Commission; and, (vi) Voluntary Retirement Program. In addition, the Tax Court declared the nullity of the modifications related to: (i) Interconnection expenses; (ii) Management fee; and, (iii) Doubtful collection provision for the months of February to June, August and October to December and revoked the modifications related to depreciation not accepted for fixed assets transferred in the equity block, and loss due to exchange differences. Finally, regarding the modification by the Nortel Analogue Network, the Court suspended the procedure until the Judicial Power provides a ruling.

Notwithstanding the foregoing, on May 6, 2013, the lawsuit was filed against the aforementioned resolution. On February 17, 2015, the claim was declared unfounded, which was confirmed by the Superior Chamber. On July 4, 2019, the supreme court ruling was notified by means of which the ruling of the second instance was declared null and void regarding the challenges denominated Nortel Analogue Network, Simple Reorganization and DCP. Consequently, the Superior Court of Justice of Lima is required to issue the ruling again. Regarding the challenges denominated Financial Charges and Over Head, the Supreme Court has adjudicated favorably to SUNAT. On September 30, 2019, the new proceedings judgment was issued, declaring the deductions unfounded for unaccepted depreciations and DCP, and that the challenge for the withdrawal of majority shareholder assets (Red Nortel) is inadmissible. Against that resolution, on October 21, 2019, an appeal was filed; the same that entered the Supreme Court on December 6, 2019.

Since the challenges to financial charges and overhead have been resolved unfavorably for the company, the contingency must be modified to probable. However, regarding the challenges to Red Nortel, unaccepted depreciations and DCP, the nullity of said challenges has been declared, so that in the opinion of Management and its external advisors the contingency of the challenge to unaccepted Depreciations is possible, and the other challenges remain at being reasonably remote.

b) General sales tax for year 2000 -

On June 20, 2007, SUNAT notified Móviles of the Intendancy Resolution adjudicating on the claim presented by Móviles for the General Sales Tax for the year 2000. Disagreeing with the decision, an appeal was presented before the Tax Court.

On February 10, 2014, Móviles was notified with Resolution No. 0505-4-2014, whereby the Tax Court dismissed the objection to the exchange rate applicable to the retirement of goods (Analogue Network Nortel) and upheld the following challenges: (i) Expenses re-billed by the Company and (ii) the Financial charges from the loan transferred by TDP in the reorganization.

It should be noted that Móviles filed a request for clarification on the application for this file, and more so, on the reduction of 50 percent of the fines generated by the uncontested modifications, which was favorably adjudicated by means of Resolution No. 2867-4-2014 notified on March 14, 2014, as the Tax Court clarified that the application of the aforementioned reduction applies. However, when SUNAT made the corresponding settlement, the Company detected errors for which it filed an appeal, which was resolved by RTF No. 11315-10-2017, which ordered a new determination by SUNAT. On March 2, 2018, the Company was notified with Intendancy Resolution No. 0150150001600 which complied with that ordered by the Tax Court, proceeding to payment.

Notwithstanding the foregoing, on May 12, 2014, the Company filed a contentious-administrative claim regarding the challenge to Financial Charges. The claim was declared unfounded in the first instance and on May 18, 2017, the Chamber confirmed that judgment. On January 6, 2020, we were notified of the Supreme Court resolution that declared our appeal unfounded. To date, the file has entered the Court of origin to issue the resolution of the compliance to the execution.

In the opinion of the Management, and its legal advisors, taking into consideration the decision of the Supreme Court in the contentious-administrative proceedings of the 2000-2001 fiscal year of TDP and of the year 2000 of TM, the rating should be modified to probable.

c) Income Tax and General Sales Tax for 2001 tax year

On October 22, 2007, SUNAT issued the Intendancy Resolution adjudicating the claim presented by Móviles for the Income Tax and General Sales Tax for the 2001 fiscal year. Disagreeing with the decision, an appeal was submitted before the Tax Court.

The Tax Court notified Móviles on January 20, 2017, with Tax Court Resolution No. 11549-2-2016, by means of which the appeal file was adjudicated. This Tax Court Resolution confirmed the challenged modifications, with the exception of (i) Management fee; and, (ii) amortization of intangibles, which were set aside. Likewise, the Tax Court Resolution ordered a new review of a part of the doubtful collection provision and of the loss due to the exchange difference, pending a new pronouncement by SUNAT.

On April 19, 2017, the Company filed an administrative lawsuit against the said resolution. On May 7, 2019, we were notified with the judgment of first instance that declared that the claim filed by the Company was unfounded in all aspects. On October 14, 2019, the Chamber declared the resolution of first instance void. As such, it is still pending that the Court reissue a ruling.

In the opinion of the Management, and its legal advisors, there are legal arguments that demonstrate that the contingency should be modified to probable, to the extent of the adjudication by the Supreme Court in the contentious-administrative proceedings of the 2000-2001 fiscal year of TDP and the 2000 fiscal year of TM regarding the challenges to Overhead and Carve Out.

On the other hand, SUNAT has also questioned the Tax Court Resolution in court. On May 3, the sentence that declared the claim founded and was declared null by the Superior Chamber on December 7, 2018. On April 9, 2019, the ruling of first instance was communicated, stating that the RTF was partially justified and partially invalid, and thus ordered the Tax Court to issue a new resolution, confirming RI 0150140006682 insofar as to the modifications due to various expenses transferred by its related party for those that do not prove causality (a deduction referring to the payments undertaken) and for third-party taxes assumed by the taxpayer. On January 24, 2020, the discord hearing was held, to the extent that two superior judges voted for the ruling to be upheld, and one voting that the ruling be revoked. To date, the hearing statement is still to be issued.

In the opinion of Management and its legal advisors, there are legal arguments to consider that indicate the contingency should be classified as remote.

d) Income Tax and General Sales Tax for 2002 tax year

On October 23, 2008, SUNAT issued a Intendancy Resolution adjudicating the claim presented by Móviles for the Income Tax and General Sales Tax for the 2002 fiscal year. Disagreeing with the decision, an appeal was submitted before the Tax Court.

The Tax Court notified Móviles on September 15, 2017, with Tax Court Resolution No. 12003-8-2016, by means of which the appeal file was determined. This Tax Court Resolution mainly raised the following objections: (i) Management fee; and, (ii) amortization of intangibles; likewise, it declared the nullity of a part of the modification for the DCP and ordered a new review of the modification related to the financial interests (carveout).

On December 15, 2017, the Company filed a contentious administrative claim for the confirmed challenges. On November 24, 2019, the Oral submission was carried out in the first instance, with the vote still pending.

In the opinion of management and its legal advisors, the qualification of this process must be classified as reasonably remote.

Likewise, we have initiated an action of amparo by means of which we seek to stop computing the interests that exceed the legal deadlines that the administration has to determine the modifications and fines of the Income Tax of the 2002 fiscal year. On January 22, 2018, the claim was admitted for processing. On December 3, 2018, Resolution No. 4 notified that the exception of incompetence and exhaustion of the previous remedy was declared invalid. On January 20, 2020, we were notified with the judgment of first instance that declared the claim filed by the Company partially founded, stating that there is a violation of the reasonable period.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest, the likelihood of success of this process is probable, and consequently, the qualification of the contingency is remote.

On January 30, 2018, the Company was notified of a contentious-administrative claim filed by SUNAT regarding the objections dismissed by the Tax Court. On May 10, 2019, notification was made of the ruling that declared the claim filed by the Company as invalid in all aspects. On September 27, 2019, the judgment of the Superior Chamber declared the new sentence of first instance void. On January 23, 2020, the oral report was carried out, pending a vote.

In the opinion of Management and its legal advisors, there are legal arguments to consider that indicate the contingency should be classified as remote.

On October 24, 2018, SUNAT challenged RTF No. 05108-1-2018 by means of which the request for refund filed by TDP was declared inadmissible. The aforementioned claim was admitted on October 31, 2018. On December 24, 2019, we were notified with the judgment of first instance that declared SUNAT lawsuit founded. On January 9, 2020, we filed an appeal against said judgment, pending its grant.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

e) Income Tax and General Sales Tax for 2004 tax year

On October 29, 2009, SUNAT issued an Intendancy Resolution determining the claim presented by Móviles for the Income Tax and General Sales Tax for the 2004 fiscal year. Disagreeing with the decision, an appeal was submitted before the Tax Court.

The Tax Court notified Móviles on January 29, 2018, with Tax Court Resolution No. 10997-1-2017, stating that the appeal file has been determined. The aforementioned determination invalidated the modification for the provision of doubtful collection by the party that was not subject to SUNAT's review; revoked the modification for debt interests with Telefónica del Perú in order to undertake a

new review of the evidence; revoked the modification for the amortization of intangibles; and indicated that SUNAT would recognize the deductions requested, if applicable and confirmed the other aspects. We are currently awaiting the Intendancy Resolution that complies with that indicated by the Tax Court.

Regarding the modifications that were confirmed by the Tax Court: i) DCP, ii) expenses recorded for contracts for the granting of line-of-credit account 671110, iii) depreciation of asset cost and iv) modification of the coefficient of payments on account. On April 27, 2018, Tax Court Resolution 10997-1-2017 was challenged in court. On March 11, 2019, the ruling of first instance was deemed invalid regarding the claim on the modifications to the DCP; the expenses registered for the granting of a line-of-credit contract, Account 671110; depreciation of the cost of assets and calculation of late interest between December 25, 2006 and March 15, 2007; and inadmissible regarding the modification of the coefficient of payments on account. Likewise, the questioning of the capitalization of interest for the period between December 25, 2006 and March 15, 2007 was declared invalid. On August 27, 2019, the judgment upheld the claim for the challenge to the DCP only insofar as the telephone receipts. As such, on September 17 and 18, 2019, the parties filed appeals, which were submitted to the Supreme Court on September 23, 2019.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

On April 23, 2018, SUNAT made a legal challenge to Tax Court Resolution No. 10997-1-2017, questioning the following modifications: i) DCP (as they were not sampled), ii) Expenses recorded by mutual account contract 671110 - TDP debt interest (S/ 717,765) (interest on debt transferred by TDP using the Carve Out method), and iii) Modification of the coefficient of payments on account of Income Tax for January and February 2004. On March 8, 2019, notification was made of the ruling of first instance that deemed the claim filed by SUNAT as invalid in all aspects. On July 27, 2019, the judgment upheld the SUNAT claim based only on the challenge to the Carve Out, and unfounded regarding the objections to the DCP and coefficient modification. As such, we filed an appeal against the unfavorable objection on August 5, 2019; the same that was submitted to the Supreme Court on August 28, 2019. On January 22, 2020, the qualification hearing was carried out, with the result pending.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

Likewise, we have initiated an action of amparo by means of which we seek to stop computing the interests that exceed the legal deadlines that the administration must determine the modifications and fines of the Income Tax of the 2004 fiscal year. By means of Resolution No. 01 of June 13, 2018, the claim was admitted for processing. On January 10, 2020, we were notified with the judgment of first instance that declared the claim filed by the Company partially founded, stating that there is a violation of the reasonable period. On January 15, 2020, we filed an appeal against said judgment, with the concession still pending.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest. The likelihood of success of this process is probable and, consequently, the qualification of the contingency is remote.

f) General Sales Tax from 2003 to 2010 and Income Tax from 2003 to 2010 -

As a result of the audits of the years 2000 to 2009 on Móviles, this has been notified by SUNAT with various resolutions for alleged omissions regarding income tax, income tax withholdings of non-residents, withholding of income tax from fifth category and general sales tax, in the latter case, up to 2007.

In some cases, Móviles has filed claim appeals for failing to deliver the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has proceeded to pay the assessments received.

TM challenges the Tax Court Resolution No. 5018-1-2019 through which the IR of 2003 is discussed, challenging the following repairs: (i) Challenging account 634003 "Maintenance and repair of equipment and cabins", (ii) Challenge to account 635001 "Office real estate rental", (iii) Challenge related to depreciation and / or amortization of assets, (iv) Dismissal of questioning of the carry-over loss, (v) Dismissal of recognition of payments made against IRs of IGV February and March 2003, (vi) Improper calculation of default interest, (vii) Challenges to expense accounts 621002 and (viii) non-application of interest for justified delay. The lawsuit was filed on October 30, 2019 and admitted on November 11, 2019.

TM challenges Tax Court Resolution No 7639-9-2010 through which the IGV of the year 2010 is discussed, disputing the following challenges: (i) Prescription regarding the period of commencement of the power of collection of RD 012-003-0076597 to 012-003-0076608 and RM 012-002-0029133, (ii) Excess recreational expenses that are not deductible according to Income Tax rules. On December 23, 2019, a lawsuit was filed, which is pending admission.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo process is reasonably remote.

Also, on January 10, 2010, we were notified with the SUNAT lawsuit questioning what was resolved by the Tax Court in Tax Court Resolution No. 6575-10-2019. On January 24, 2020, we presented our response to the complaint.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo process is reasonably remote.

g) Mobile royalties -

On February 27, 2012, the MTC notified the Company of the settlement of the annual payment of the mobile royalties for the use of the radioelectric spectrum corresponding to that year as per the General Scheme, arguing that the Special Regime, which Telefónica Móviles acquired at the time, was no longer applicable given its temporary nature.

As a consequence of the MTC's claim to apply the General Regime, the Company proceeded to: (i) file a complaint before the MTC arguing that the Special Regime was the one that legally applied; and (ii) submit a complaint to INDECOPI arguing that the calculation methodology contained in the General Regime constituted a Bureaucratic Barrier.

The appeals lodged by the Company for the years 2012, 2013 and 2014 before the MTC were dismissed. Consequently, the Company filed appeals before the Tax Court, which are pending determination. The MTC is reluctant to make the files available. Likewise, for the years 2015 and 2016, the Company filed claims before the MTC, which are pending determination by the Tax Court.

The claim of Bureaucratic Barriers was decided in the last administrative instance on February 19, 2016, declaring that the calculation methodology contained in the General Scheme constituted a Bureaucratic Barrier and therefore was inapplicable for Telefónica. This determination applies not only for the year 2012, but for subsequent fiscal years.

In the case of the mobile royalties corresponding to the years 2012, 2013 and 2014, the Company made the payments under protest according to the settlements formulated by the MTC. While the payments corresponding to the years 2015 and 2016, were not made as a precautionary measure was obtained in the procedure of Bureaucratic Barriers and, as a consequence of the definitive determination from INDECOPI, respectively.

However, on January 18, 2017, the Company was notified with the requirement formulated by the MTC for the payment of the corresponding royalties for the years 2015 and 2016, based on the existence of a precautionary measure issued by the 25th Contentious-Administrative Court of the Superior Court of Justice of Lima, which ordered INDECOPI to suspend the effects of the ruling that declared that the calculation of the royalties as per the General Scheme constituted a Bureaucratic Barrier, specifying in the requirement that if the payment is not made within the term granted the respective coercive collection actions would proceed.

On January 27, 2017, the Company responded to the aforementioned requirement stating that (i) as at that date, it had not been notified of any precautionary measure; (ii) it had not been notified with any INDECOPI resolution that ordered the suspension of the effects of its determination; and (iii) pursuant to the provisions of Articles 136 and 115 of the Tax Code, Article 16, subparagraph e) of the Coercive Enforcement Procedure Act, and paragraph 28, Article III.4 of the Directive approved by Supreme Decree No.036-2010-MTC; it was not possible to initiate any coercive collection action as the Company had filed, within the established legal deadlines, claims before the MTC for the years 2015 and 2016.

On March 7, the Coactive Executor suspended the Enforcement procedure. However, in order to avoid a possible allegation by the Ministry that Telefónica would not be paying the royalties and starting a procedure to lose the concession, Telefónica proceeded to pay the 2015 and 2016 periods for amounts amounting to S/ 50,787,968 and S/ 52,107,136.

The Management of the Company and its internal and external legal advisors estimate that there are legal arguments to sustain that the final determination that is issued in the contentious-administrative process promoted by the MTC against the decision of INDECOPI will be favorable. If so, any favorable result derived from the aforementioned contentious-administrative proceeding will not have a significant impact on the Company's consolidated financial statements.

h) Income tax Telefónica Multimedia 2007, 2010, 2012, 2013 and 2014

As a result of the audits of the financial years 2007, 2010, 2012, 2013 and 2014, this has been notified by SUNAT with various resolutions for alleged omissions regarding income tax.

In some cases, Móviles has filed claim appeals for failing to find the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has proceeded to pay the assessments received.

Regarding the Income Tax for the year 2012 for Multimedia, on June 17, 2015, SUNAT issued Determination Resolutions No. 012-003-0059229 to 0059241 and Fine Resolutions No. 012-002-0025995 to the 0025997. The main remedy undertaken by SUNAT corresponds to the expenses that are supported with documentation that were received after the presentation of the sworn statement. Disagreeing with the stipulations of the Determination and Fine Resolutions, the Subsidiary filed a Claim Appeal. Meanwhile, on January 22, 2016, SUNAT communicated Intendence Resolution No. 0150140012250, by means of which the aforementioned Claim Appeal was declared invalid. Consequently, an appeal was filed before the Tax Court.

In the opinion of Management, and its legal advisors, there are legal arguments that indicate that the tax process could be resolved on favorable terms for Multimedia. If so, any favorable result derived from the aforementioned proceedings will not have a significant impact on the Company's consolidated financial statements.

Telefónica Multimedia thus questioned Tax Court Resolution No. 149-4-2019 by which IR No. 0150140014378 declared the claim made against payment orders No. 011-001-0123981 to 011-0123989 drawn for IR account payments from January to July, October and December 2014 as unfounded. On April 24, 2019, the claim was filed. To date, an oral submission has been scheduled for April 7, 2020.

In the opinion of Management and its legal advisors, for the aforementioned administrative contentious processes there are sufficient arguments to consider the contingency as reasonably remote.

Furthermore, for the fiscal year 2010, the Tax Administration issued securities through which it questions the amount of S/ 5,784,119 for not having the respective payment receipt on the date of presentation of the IR Affidavit of the year as these were received and registered after that date. It also states that the deductions of expenses for S/ 1,869,353, made via the affidavit, were not accounted for in 2010 and, therefore, had not accrued in this fiscal year.

As the aforementioned challenges do not comply with the law, on September 15, 2014, a Complaint was filed, which was declared unfounded by Intendancy Resolution No. 0150140011644. As we were not satisfied with the resolution, on December 29, 2014, the corresponding Appeal was filed. Said appeal was resolved by Tax Court Resolution No. 09878-4-2019 which revokes the Resolution of Intention mentioned above and, in addition, the request to return the amount paid is processed.

In relation to the procedures detailed above, as at December 31, 2019, as explained in note 2.20, the Company recorded the required provisions, with an estimated amount of S/ 724,941,000 (S/ 1,375,829,000 as at December 31, 2018) held as possible contingents. See note 21. Management and its legal advisors estimate that the individual outcome of the claims should not have a significant impact on the Group's consolidated financial statements.

In the same way, the Company has various legal (labor and administrative) regulatory and customs claims that are carried out by its external and internal legal advisors. As of December 31, 2019, as stated in note 2.19, the Company has recorded the necessary provisions, leaving as possible quotas an amount of S/ 648,979,000 (S/ 558,965,000 as at December 31, 2018). See note 21. Management and its legal advisors estimate that the individual outcome of the claims should not have a significant impact on the Group's consolidated financial statements.

34 SUBSEQUENT EVENTS

Between September 31, 2019 and the date of approval of the consolidated financial statements, there were no significant subsequent events that in the opinion of Company management require any additional disclosure or any adjustment to the balances presented in the consolidated financial statements.